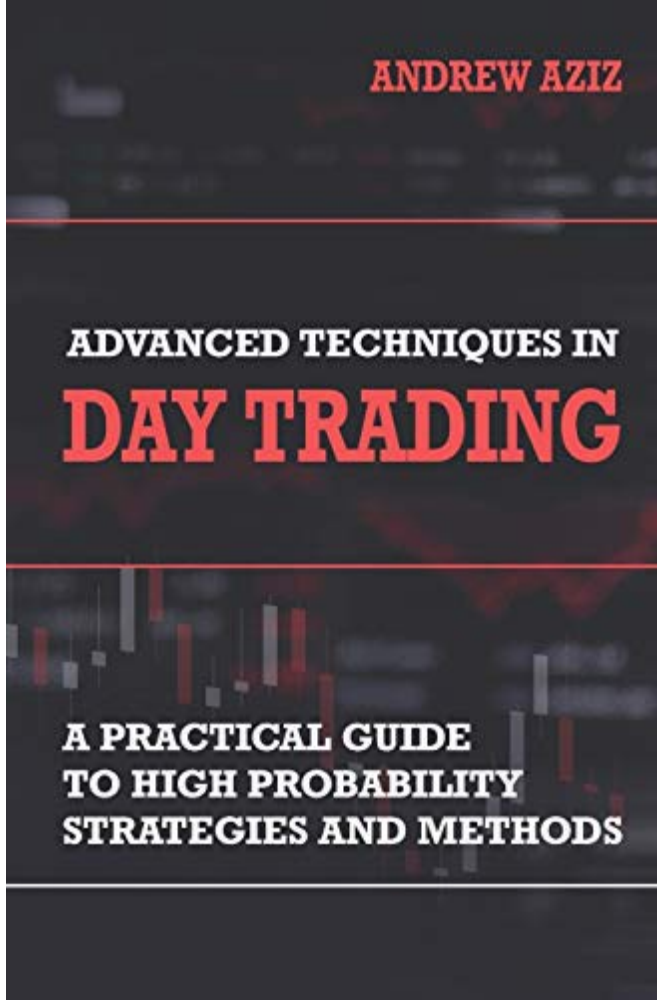
ANDREW AZIZ
ADVANCED TECHNIQUES IN
DAY TRADING
A PRACTICAL GUIDE
TO HIGH PROBABILITY
STRATEGIES AND METHODS

VISIT...

ANDREW AZIZ, Ph. D.

ADVANCED TECHNIQUES IN DAY TRADING

A PRACTICAL GUIDE TO HIGH PROBABILITY STRATEGIES AND METHODS

1st EDITION

Advanced Techniques in Day Trading

A Practical Guide to High Probability Strategies and Methods

© Andrew Aziz, Ph.D.
Day Trader at Bear Bull Traders

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Chapter 1:
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About this Book

This publication can be regarded as a sequel to my first book, *How to Day Trade for a Living: A Beginner's Guide to Tools and Tactics, Money Management, Discipline and Trading Psychology*.

In that first book, I explained the fundamentals of day trading and how day trading is different from other styles of trading and investing. In the process, I also described important trading strategies that many traders use each day. Although I sense my first book well-served many new traders, I know it left many more experienced traders looking for a more detailed guide. There was a sacrifice I had to make in writing the first book. That book was intended to be for beginners, and I had to make a choice between a detailed and very likely overwhelming guide, or a simpler guide that was aimed for the novice trader.

After much thought, I decided to review the entire day trading process, but not in significant detail. For example, I wrote about strategies and scanners, but I did not dive into the technical parameters of scanners that often leave new traders terrified and lost. I wanted to establish important and vital fundamentals and overview the most important strategies which need to be mastered. This, my second book, utilizes those fundamentals and strategies as a launching pad to explain some of the more advanced strategies and methods involved in day trading.

If you have read the first book (*How to Day Trade for a Living),* then *Advanced Techniques in Day Trading* will serve as a reminder, or a kind of refresher course on the basics, with a deeper dive into the technical. If you have not yet read *How to Day Trade for a Living*, I think you will find this publication's somewhat condensed version of that basic information easy to understand as it then introduces you to more advanced techniques. To maximize your learning experiences, however, I recommend reading (and then regularly re-reading and consulting) both books. I believe you will find them to be useful guides and references at all stages of your career as a trader. And don't just strictly study my books. There are many excellent resources out there. A successful day trader is definitely a lifelong learner.

Intermediate traders may benefit from the first book's overview of some of the classic strategies that the majority of retail traders use effectively. If you don't consider yourself a novice trader, then you may wish to jump ahead and start reading (or re-reading) at Chapter 7 for an overview of the most important day trading strategies. However, I encourage you to skim through the earlier chapters as well. Becoming a consistently profitable trader will not require you to

master complicated new trading strategies every day. The strategies in Chapter 7 of *How to Day Trade for a Living* are the ones that traders have used for over a decade. They have worked thus far and really do need to be mastered. Work on simple and well-known strategies, but adjust them over time to complement your own personality and whatever the current market conditions are. Success in trading is not a revolution; it is an evolution.

Whether you are a novice trader or one with some experience, these books can equip you with an understanding of where to start, how to start, what to expect from day trading, and how you can develop your own strategy. Simply reading books will, of course, not make you a profitable trader. Profits in trading do not come from reading one or two, or even a dozen books, but, as I explain, profits can come with practice, the right tools and software, and proper ongoing education.

While I tried to avoid repetition, I must confess to traders who read my first book, some parts may seem redundant or repetitive. Again, a hard choice and a sacrifice had to be made. I want this book to be the addition to the first book, but still this book needs to stand alone and be coherent for anyone who is new to day trading or has not read the first book yet. Therefore, I apologize in advance if you find some parts repetitive. You may want to skim through those sections faster.

My Trading Style

There are two styles of trading: *discretionary* and *mechanical systems based*.

Discretionary traders evaluate potential trades based on their trading plan, using technical analysis to determine if each trade meets their requirements. Although the discretionary trader's rules are known, the trader decides to take or pass on trades based on their experience. The discretionary trader doesn't follow a firm algorithm of entries and exits. Instead, they weigh all available information, and then make a call.

Mechanical systems, on the other hand, are trading strategies that a computer program can execute. The mechanical system is often based on technical inputs such as price and indicators. The strategies are usually programmed into a computer software program that can backtest them on historical market data to determine if they produce positive expectancy: namely, if they produce higher profits than losses over the long term and in comparison to the overall market. Rarely does a trader need to make a decision when using mechanical systems. Institutional trading, high frequency trading and algorithms are all examples of mechanical systems based trading. There are many firms, educators, traders and even online scammers who develop these types of computer programs and systems and sell them to traders.

The two approaches both have advantages and disadvantages: discretionary trading offers a fresh look at each trading opportunity and lets the trader pass on trades when information that may not be easily captured in a computer program indicates a decreased chance of success. However, because the discretionary trader must make a decision for each trade, traders are more prone to emotional trading and acts of self-deception, such as falling in love with a trade, that will often result in a failure to follow their trading plan.

Mechanical trading, on the other hand, largely takes the trader's decision-making process out of the equation. A computer algorithm executes the trades as programmed. The only input on the trader's part is the amount of capital devoted to each trade. The trader just determines the share size, and after that the trader can step back and watch the computer work its magic. But mechanical trading systems also have their drawbacks. Can a system be designed to capture all contingencies or possibilities that may arise? I don't believe so. And when losses occur, the mechanical trader must determine whether the loss is a temporary part of the system or whether it represents a fundamental failure of the strategy.

My strategies and this book are geared heavily toward discretionary systems. I believe many requirements of a successful trade, such as price action and recognizing chart patterns, can't be easily programmed into a computer. I feel more in control when I myself evaluate each trade instead of relying on a computer to execute transactions.

The Path to be a Successful Trader

Every single day, countless individuals are launching their career in day trading. They join chatrooms, participate in various classes, and start trading in real accounts or simulators. They enter day trading with all kinds of different expectations. Let's deal with one that I encounter often. People will say to me, "*Oh, okay, I'll become a full-time trader, and I can make a living out of that. I'll have financial freedom and become independent and be able to quit my job.*"

Unfortunately, that is not very likely to happen very early in their trading career. Of course, it's possible for anyone after three months of training and study to become a full-time trader. That's the easy part. But if you want to actually make a living out of trading, preferably while lounging in a beach house on the Caribbean and sipping tall cool drinks, that outcome is highly unlikely.

I'm always saying that trading is a career and a business. And in no career and in no business can you become profitable in just three months. Look at doctors, lawyers and engineers. They go to school for years and take examinations and serve internships and practice, and practice some more, before they can truly call themselves professionals. They are all long and challenging processes that take considerably more than three months.

Basically, what you will learn in those first three months are the answers to two vital questions:

1. Is day trading for you?
2. And if yes, how to plan your trading business?

That's the first and most fundamental question: "*Is this for you or is it not?*" And if it is for you, you need to know how to plan for it and understand that you have to let your trading business grow slowly.

There are costs associated with learning day trading. Real time simulators and the tools and software required for a trading business are not cheap, although their costs are not overwhelming either. A typical education cost for a trader is between $1,000 to $2,000 including several months of practice trading in a simulator. This cost, although high, is not unreasonable for a new career or to start a new business. You can compare this to any educational degree that you

attend school to earn, as well as any professional degrees, such as postgraduate diplomas or MBAs, where you have to spend tens of thousands of dollars in tuition fees and living expenses, and spend years in school, and yet you're still not guaranteed an income.

Many often ask if there is a guarantee that they will become a profitable trader? The answer is no, there is no guarantee for success. This is also true in all other careers and businesses. I personally know many doctors and engineers who are in financial trouble, carrying literally huge student loans and personal debts. An education or training program is an investment that you make, and maybe it works, and maybe it doesn't. If it doesn't, it's not the end of the world for you. You will survive and go on with your life. And if it works, well, that's good for you. Knowing how to manage expectations is extremely important, especially for beginner traders.

Some people tell me they need to get into trading with real money as quickly as possible, saying, "*I don't have time to practice in a simulator. I really need the income. I quit my job, I don't have any savings, and I can't wait.*"

This is a common discussion I have almost every day with a new trader. They want to get into live trading as quickly as possible. In the summer of 2017, one trader emailed me and explained he had experienced some heavy losses and was wanting my advice. His sister had given him my first book as an early birthday gift. I did not know him before, and I had no idea what he was doing, but I urgently asked him to stop trading with real money and switch to a simulator so we could get to work on figuring out his problems. He emailed me back:

> *"I have never used a simulator. I can't afford to earn fake money for 3 months. I am on a mission to rebuild my battered portfolio."*

He later got into even deeper trouble with his account. Trading in a simulator and taking the time to gain a proper education is vital. I often receive negative feedback about why I place so much emphasis on these two points. Some traders think I want to push them toward buying my software, but in all honesty I don't own any software. My desire is to try to save traders from themselves.

Trading in a simulator is a must. You should go live and begin trading with real money only after earning consistent profits when trading in a simulator for several months. The bottom line is that there is still no guarantee, even if you are consistent in the simulator, that you will make money when you use your real account. But, if you are not consistent in the simulator, failure is guaranteed when you begin trading with a real account, and especially given all of the

psychological factors that will come into play.

Another problem for beginners is that many of them think that trading is easy, often because they have been misled by online marketers. If you go to the Internet and do a Google search, you will find plenty of advertising for different training programs featuring people who say, "*Oh, it's easy,*" and constantly use catchy buzzwords and phrases like "*financial freedom*" and "*becoming independent*". The truth is that trading is not easy, and you have to be really skeptical about anyone who says otherwise.

Day Trading as a Probability Business

Many new traders ask me if the market is random or not. My answer is yes, of course, the stock market is random if you mean that anything can happen at any moment. A subsequent, and understandable, question from many of them is, "*How then can we make money in such a market?*"

The answer is that although the stock market is random, there are certain trading patterns that appear almost every single day, and as a trader your job is to find and properly trade those. However, finding a pattern is not enough, an excellent execution is just as important. I often in the chat find and call out many potential trading patterns to traders, but I do not take them myself. When I am asked why I'm not taking the trade, my answer is that I could not find a proper risk/reward ratio in order to make the trade.

To illustrate this point, let's think about the sky. When our ancestors originally studied the sky above them, they saw what appeared to be a random mass of stars. As they continued their observations, however, they came to realize that specific patterns of stars were always present. And not only were they always present, they were also so consistent that people could actually establish calendars and chart navigation based on those patterns. Of course, we know now that the sky is not random. It is based in the forces of gravity. The point that I am trying to make is that this is quite similar to the stock market. Prices go up and down, and anything can happen at any moment, but there are certain patterns that show themselves over and over again. And the good news for traders is that there's a good chance you can actually make money by recognizing those trading patterns.

Your job as a trader is to find those patterns and then execute good trades that are based on them. Sometimes you will recognize an opportunity, but if you decide to invest too much, you could lose money. Or, if you hesitate a little bit and get a bad entry, you could also lose money. This means that recognizing trade patterns is important, but execution is equally important.

The bottom line is that although the market is random, it is possible to make consistent money from it, similar to how our ancestors learned to navigate and measure time from what appeared to be a random sky. However, you need to be prepared for the unforeseen in the market. When you enter a trade, there is a possibility that the trade will go against you. That is why you must use stop losses and exit losing trades. This is the confusing part for many people. They do not know how to accept a loss, but they still believe the fact that making

money in the market is possible.

Another important aspect of trading is understanding the risk and probability that is inherently involved in it. Trading is a game of probability and statistics. If you execute proper risk/reward trades, in the long term you will make more money than you will lose.

In the business of casinos, almost all of the games have a favorable ratio toward the house, meaning that the casino is more likely to win than lose. This does not mean that gamblers cannot or will not make money. No, every night in Las Vegas, millions of dollars go to gamblers, but a few more millions of dollars go to the casino owners, should sufficient people be gambling that night. There will be nights that the gamblers will make more money than the casino will, but at the end of every year, the casino will be the overall winner by some percentage. And that is why the casino industry needs more and more players. And that is why drinks are free and your food, hotel room, and flight to Las Vegas is so cheap. Why you ask? Because the real money for hotel and casino owners is in the gambling. The more people who play in the casino, the more favorable the odds are for that casino.

A great example to illustrate the difficulty in grasping the concept of chance and probability is a famous brain teaser and puzzle known as the Monty Hall problem, which is discussed in Jack Schwager's book, *Market Wizards*. In 1963, a television game show called *"Let's Make a Deal",* hosted by Monty Hall, premiered. Suppose you're on the show, and you're given the choice of three doors: behind one door is a big prize like a new car; behind the others, goats. Of course, everyone wants to get the big prize! You have to pick one of the three doors. You pick door no. 1, for example, and the host, Monty Hall, opens another door, door no. 2, which has a goat. Monty Hall, who was also one of the creators and producers of the game show, knows which door the prize is behind. The way he played the game, he would never open the door with the real prize. Now he turns to you and asks, "*Do you want to switch to door no. 3?"* Do you stay with door no. 1 or do you switch? Is it to your advantage to switch your choice?

The obvious answer seems to be that it doesn't make a difference. When you picked door no. 1, the chance of winning the big prize was equal to one-third or 33%. Now you have only two doors, and everyone thinks it must be a 50/50 chance between the doors, and so changing from door no. 1 to door no. 3 does not make any difference. You have a 50% chance with either door.

But surprisingly, this is the wrong answer. The correct answer is that you should always switch to door no. 3. The probability that the prize

is behind the door you originally picked was one-third, 33%, and in being behind one of the two doors you did not pick was two-thirds, or 66%. The fact that Monty Hall opens one of those two doors and there is nothing behind it doesn't change this original probability of 66%, because he will always open the wrong door. Therefore, if the probability of the prize being behind one of those two doors was 66% originally, the probability of it being behind the unopened of those two doors is still 66%. So, if you stick to your door no. 1, you have a 33% chance of getting the big prize, but if you switch from door no. 1 to door no. 3, you now have a 66% chance of winning the big prize, instead of the 33% chance if you stick with door no. 1.

This show was watched by millions of people for years, and yet many did not realize that the odds were so heavily in favor of switching! What confuses people is that the process is not random. If Monty Hall randomly chose one of the two doors, and the prize was not behind the selected door, then the probabilities between the two remaining doors would indeed be fifty-fifty. Of course, if he randomly selected one of the two doors, then sometimes the prize would be behind the opened door, but that never happened. The key is that he didn't randomly select one of the doors; he always picked the wrong door, and that changes the probabilities. It's a classic example of conditional probability. If the probability of the prize being behind door no. 2 or door no. 3 is two-thirds, given that it's not door no. 2, what is the probability that it's door no. 3?

The answer, of course, is still two-thirds.

One reason people have trouble understanding the correct solution to this puzzle is that the problem uses only three doors. This makes the assumed, but incorrect, probability of picking the big prize (1 in 2 or 50%) appear too close to the actual probability (1 in 3 or 33%) and the solution difficult to be grasped intuitively. To illustrate this better, suppose the game was played with 100 doors, goats behind 99 doors and a car behind only one of them. When first offered a door, a player would realize that the chances of picking the car are low (only 1 in 100). If Monty Hall then opened 98 doors and each had a goat behind them, it would be clear that the chance the car is behind the remaining unselected door is high (99 in 100 or 99%). Although only two doors would be left (the one the player picked and the unopened door), it would no longer intuitively appear that the car is equally likely to be behind either door. The costumed contestant originally had a 1% chance, and now they cannot say doors no. 1 and no. 100 still have the same probability. To change the pick would be intuitive to most people.

Of course this problem assumes people prefer a car to a goat.

However, some might argue that a goat is a delightful animal, and finding parking in most cities is a problem.

The bottom line is that your intuition deceives you. Your simplistic impulse is to say that the probabilities are 50/50 for both door no. 1 and door no. 3. On careful analysis, however, you realize that there is a huge advantage to switching, even though it was not at all obvious at first. The moral is that in trading it's important to examine the situation from as many angles as possible, because your initial impulses are probably going to be wrong. There is never any money to be made in the obvious conclusions.

This example demonstrates that many people cannot find peace and accept that there will be losses when trading. Instead, they start questioning their strategy, their training, their ability and their skills, rather than accepting that a loss is a part of the process. They do not realize that a loss in trading is not personal, it’s simply to be expected from time to time. It’s part of the normal probability and uncertainty associated with the markets. It’s the same as the people who did not realize that they had a better chance of winning if they had changed from door no. 1 to door no. 3. They also did not have a good grasp of the concept of probabilities.

In trading, you accept a loss, without questioning your strategy. You make another trade, and you accept another loss, and in the third trade, when it works in your favor, you make sufficient money to cover your previous losses, if you are using a risk/reward ratio higher than 1:3 in the execution of your strategy.

How this Book is Organized

I believe every trading education has three parts:

1. The mechanical aspect (Chapter 2)
2. The technical aspect (Chapters 3-7)
3. The psychological aspect

The Mechanical Aspect of Trading

The first step in learning about trading is often referred to as the mechanical stage because it refers to using "the tools of the trade". In this instance, the word "tools" is defined very broadly to refer not only to aspects of trading that are literally "hands-on", such as scanners and software and Hotkeys, but also to those with direct human involvement, such as brokers, chatrooms, news feeds, and journaling.

Your platform (DAS Trader is one name you may have come across) is, of course, one of the most important tools in trading, and fortunately, like these other aspects, can be learned relatively quickly and easily. In Chapter 2, I write about the mechanical aspect of trading. Like any other career, a professional needs to learn how to use the required tools in their profession. Auto mechanics, dentists, engineers, pharmacists and lawyers all have various tools that they need to master with practice. Similarly, traders need specialized tools for their trading career, including a proper trading platform, software, scanners, and more. I discuss these tools in Chapter 2 and dive deep into their use.

The Technical Aspect of Trading

The technical stage of trading is the how-to-do-it part of trading. Although many people believe this is the crux of trading, the technical stage can actually be learned relatively quickly. Some of the skills to be learned include building a watchlist, finding the Stocks in Play (finding the correct stocks to trade), identifying and practicing strategies, finding patterns, and learning about positions. Again, fortunately, there are many books and mathematical formulas available to facilitate learning about these aspects of trading, and classes on these topics are readily available. Chapter 3 discusses how to find the Stocks in Play and Chapter 4 teaches how to define proper support and resistance levels.

Chapter 5 discusses price action, trade management and reading chart patterns.

In Chapter 6 I explain the main trading strategies that I use. These are more advanced strategies than I described in my earlier book, with more examples, as well as information on recent developments in their effectiveness. Many traders might think this is the most important chapter of the book, but I disagree. In Chapter 7 I provide some thoughts on risk management and, in my personal opinion, Chapter 7 is more important than Chapter 6 because recognizing trading patterns is not enough, you also need to execute them flawlessly. A perfect execution requires excellent risk management, position sizing and, of course, trade management (Chapter 5). To make that point clear, in Chapter 7 I set out a detailed analysis of my thought process to provide a so-called "behind the scenes" look at some successful trades that I have made.

The Psychological Aspect of Trading

If there is such a thing as a secret to the nature of trading, this is it, the psychological side. It is easily the most challenging aspect of trading. Some of the psychological pitfalls that beginners and even experienced traders can encounter include emotional trading, fear, greed, revenge trading, not knowing how to manage losses, and not being in an appropriate mindset. In the last chapter, I briefly provide some thoughts regarding the psychology of trading, but I have plans to write a separate book about this subject very soon. Many famous traders say trading is 80% psychology and 20% technical knowledge. I think that's a fairly accurate estimate because it emphasizes that success in trading is primarily based on the psychological aspect.

As you are learning how to trade, you should certainly learn about the technical and mechanical aspects, but you will especially need to concentrate on the psychology of trading. Even when you are practicing in a simulator and not dealing in real money, you still have to treat it as a real account. It is easy to buy and sell on paper rather than with your real money, but you must practice being in the right mindset for trading. You have to control your emotions, even though there is no real money involved. There are courses, books, and many other resources available on this topic. I personally devote some time each week to studying books about the psychology of trading. I don't read much about the technical aspects anymore, because I think I know enough to make a living out of trading, but I'm always constantly reading about the psychological aspect.

There are a number of psychological snares awaiting the unwary trader, and they can turn out to be disastrous in both personal and financial terms.

"*Emotional trading*" is a very broad term that can apply to a wide

range of situations and, in some ways, it encompasses the other traps discussed in this section. It basically means basing trades on emotion rather than on rational thought. Emotional decision making during a trade is the main reason new traders fail. To be a successful trader, you need to practice self-discipline and excellent money management. As Dr. Alexander Elder writes in his book, *Trading for a Living*, successful traders watch their trades and their money as carefully as professional scuba divers watch their supply of air.

In the financial market, simply being better than average is not good enough. You have to be significantly above the crowd to win in day trading. Trading is a minus-sum game. Just by entering into the market, you start losing. Your bank charges you a fee for wiring out to fund your trading account. Your broker will charge you an incoming wiring fee for funding the account and then start charging you for their market data, the use of their platform and a commission on each trade that you make. If you do not make enough monthly commissions for them, they will then charge you an inactivity fee. When you make a trade, market makers profit by charging you the bid-ask spread and slippage on your fills. Regulators such as the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC), as well as the actual exchanges, also live off of the markets by charging fees.

In summary, the “industry” constantly needs a fresh supply of losing traders bringing their money into the markets. People think trading is a zero-sum game, but it is not. Trading is a minus-sum game because winners receive less than what losers lose as the industry ecosystem drains money from the markets. The market is not a level playing field; it is slanted against you.

Unfortunately, day trading often appeals to impulsive people, gamblers, and those who feel that the world owes them a living. You cannot be one of them, and you should not act like them. You must start developing the discipline of a winner. Winners think, feel, and act differently than losers, and this will reflect in all aspects of your life. You must look within yourself and your life, discard your illusions, and change your old ways of being, thinking and acting. Indeed, change is hard, but if you wish to be a successful trader, you need to work on changing and developing your personality. Day trading is not a hobby. It’s not a weekend pursuit. Once you begin trading with your real money, you need to treat it as your job, as your career, and as your profession. I personally believe you must start developing the discipline of a winner. You need to get up early, get dressed, and be seated in front of your trading station, just as if you were getting ready to go to any other job. You can’t be casual about it.

You can be successful, but in order to succeed, you have to be better prepared than many of the other traders that you are competing against. A significant part of achieving that success is to learn how to control your emotions. You have to be "calm, cool and collected" as the saying goes. You have to somehow find a way to control your emotions.

Fear is nature's way of responding to a threat, and in trading it can undo the best of intentions. It is an emotion that can affect not only beginners but veteran traders as well. At one extreme it can result in paralysis – the inability to make decisions. At the other extreme, it can lead to bad decisions and bad trades. People often become fearful when they are faced with situations they don't fully understand or don't feel comfortable in. There are two basic solutions to this kind of fear: knowledge and experience. The more someone has learned about trading, the more time they have invested into developing a repertoire of useful skills, and the more they have put their training into practice in both simulated and actual situations, the less they will experience fear.

In the context of trading, the emotion of fear is what can either keep us from making decisions or can lead us to take unnecessarily cautious approaches in deciding on trades. While risk-taking in trading needs to be carefully and rationally managed, an excessive avoidance of risk can be a major roadblock to success.

Greed is closely associated with fear. While fear makes us want to back away from a threat in order to avoid harm, greed makes us want to move forward as much as possible toward something we find attractive. Greed is probably a more common occupational hazard in trading, especially among novice traders. Although virtually every training program and book emphasizes that trading is not a form of gambling or a get-rich-quick road to wealth, many traders, including some with extensive experience, see some opportunities as too good to pass up. Instead of relying on their training and exercising their discretion, they succumb to the temptation of greed and go on to trade impulsively.

"Revenge trading" is an understandable but ineffective way of dealing with losses. It especially affects traders who have enjoyed extended periods of profit and have developed a sense of invulnerability. Lulled by their successes into the belief that they can't lose, they disregard what they have learned from their training and experience and make some foolish moves. Then, not unexpectedly, they lose and wipe out some or all of their previous gains. And then, the "revenge" part kicks in, and that can potentially make a bad situation much worse.

People will ask me, "*How is it that some traders can make it and many fail despite having the same education and tools?*" Why does that happen? What exactly is that quality, that attribute, that some people have but others do not? Why do very few new traders make it? And what makes others bend under the pressures of trading and ultimately fail?

These questions have fascinated me ever since I started trading and later entered into the world of teaching and mentorship. The answer, in my opinion, is "resilience". My trading career has taught me much about resilience, although it's a subject none of us will ever understand fully. Resilience is one of the greatest psychoanalytic puzzles of human nature, like creativity or the religious instinct. To get the exact answer, we have to look more deeply into the human psyche.

Why do some people experience real hardships but do not lose their strength? It's a question we would all like answered. We've all seen that happen in our own circles. For example, a family member, friend, or acquaintance who cannot seem to get their confidence back after a layoff; another, persistently depressed, takes a few years off from life after their divorce.

People react very differently to challenges in life. In 1983, a talented young guitarist, Dave Mustaine, was kicked out of his newly formed band in the worst possible way. The band had just been signed to a record deal to record their first album. But a couple of days before the recording was to begin, without any warning, discussion, or a dramatic blowout, the band asked Dave to leave. He had to go back to his hometown the same day. He sat on the bus back to Los Angeles from New York and kept asking himself: How did this happen? What did I do wrong? What will I do now? By the time the bus hit L.A., Dave had gotten over this bad experience and self-pity and vowed to start a new band. He decided that this new band would be so successful that his old band would forever regret their decision.

He worked hard, he spent months recruiting the best musicians he could find, he wrote dozens of songs, and he practiced religiously. The combination of anger and ambition eventually led him to form the legendary heavy metal band Megadeth which sold 38 million plus albums and toured the world many times over. Today, Dave Mustaine is considered one of the most brilliant and influential musicians in the history of heavy metal music. The band Dave was fired from was Metallica, one of the best-selling bands ever. Although he never reached the same success as Metallica, he did put his life back on track. This is resilience at work.

Now let's look at the life of another musician who got kicked out of another band. His story echoes that of Dave Mustaine, but ended differently. In 1960, an English rock band formed in Liverpool with funny haircuts and an even funnier name: The Beatles. John Lennon (the lead singer and songwriter), Paul McCartney (the boyish-faced romantic bass player), George Harrison (the rebellious lead guitar player) and Peter Best founded the band. Peter Best was the best-looking member of the band - the one who girls went wild for, and it was actually his face that began to appear in the magazines first. He was also the most professional member of the group. He didn't do drugs and had a steady girlfriend. He was *"too conventional to be a Beatle",* according to the autobiographical book of their manager, Brian Epstein.

In 1962, after receiving their first record contract, the other three members quietly got together and asked Brian Epstein, their manager, to let Peter Best go. No reason, no explanation, no condolences, just wish him the best of luck. As the replacement, the band brought in Ringo Starr. Within six months of Peter Best's firing, the intense fan frenzy of Beatlemania erupted, making John, Paul, George, and Ringo four of the most famous faces on the entire planet. The Beatles became the best-selling band in history, even to this date, with estimated sales of over 800 million physical and digital albums worldwide. Meanwhile, Peter Best fell into a deep depression and alcoholism. The rest of the Sixties were not kind to Peter Best. By 1965, he had sued two of the Beatles for slander and, in 1968, he attempted suicide, only to be talked out of it by his mother. Peter Best didn't have the same redemptive story Dave Mustaine did and, if you ask me, it's mostly because of his lack of resilience.

This is my story. I first began day trading after I got unexpectedly laid off from my job. Unemployed, feeling embarrassed in front of my partner and friends, I proceeded to lose all of my savings and severance package to the market. I did not give up, even though I lost over $10,000 in the first few months. I was forced to find another job to be able to pay the rent and my bills. But I did not stop trading. I switched to trading in a simulator and kept waking up at 5 a.m. in the morning to be able to trade from 6:30 to 8 a.m. before leaving for work. I was lucky that I lived on the West Coast, in the Pacific Time Zone, where the market opens at 6:30 a.m. instead of 9:30 a.m. for those on the East Coast. I could trade and still be at work by 9 a.m. It was not easy but I managed to handle it. Did I know what was driving me at the time? Not really. Resilience is something you realize you have *after* the fact.

I recently watched a movie on Netflix, *The Founder*, about the life of

the legendary Roy Kroc, the middle-aged and below average milkshake salesperson who began to build the McDonald's empire at the age of 52. In the last scene of the movie, he is practicing the speech he is soon to give in front of the Governor of Illinois. Standing in front of a mirror while getting dressed, he says:

"Now, I know what you're thinkin'. How the heck does a 52-year-old, over-the-hill milkshake machine salesman... build a fast food empire with 16,000 restaurants, in 50 states, in 5 foreign countries... with an annual revenue of in the neighborhood of $700,000,000.00...

"One word... PERSISTENCE.

"Nothing in this world can take the place of good old persistence. Talent won't. Nothing's more common than unsuccessful men with talent. Genius won't. Unrecognized genius is practically a cliché. Education won't. Why the world is full of educated fools. Persistence and determination alone are all powerful."

It is true. More than education, more than experience, more than training, a person's level of resilience will determine whether they will succeed or whether they will fail. That's true in business, it's true in the Olympics and Paralympics, and it's true in the world of trading.

Many academics and resilience researchers believe in the role of genetics. Some people are just born persistent. There's some truth to that, of course, but there is also much evidence showing that resilience can be learned. Resilience can be systemically taught and implemented by not just individuals, but also by communities and organizations.

The famous investment bank, Morgan Stanley, was the largest tenant in the World Trade Center on September 11, 2001, with over 2,700 employees working in the South Tower between the 43rd and the 74th floors. On that horrible day, the first plane hit the North Tower at 8:46 a.m., and Morgan Stanley started evacuating just one minute later, at 8:47 a.m. When the second plane crashed into the South Tower 16 minutes after that at 9:03 a.m., Morgan Stanley's offices were largely empty. All told, Morgan Stanley lost only seven employees despite receiving an almost direct hit.

Of course, there is no doubt that the company was lucky to be located in the second tower. The other companies such as Cantor Fitzgerald, whose offices were hit in the first attack, couldn't have done anything to save their employees. Still, truth be told, it wasn't just luck. It was Morgan Stanley's resilience that enabled them to benefit from that luck. Soon after the 1993 World Trade Center bombing by Ramzi Yousef and his co-conspirators, Morgan Stanley's senior executives recognized that working in such a symbolic center of the U.S. financial

industry could make the company vulnerable to possible terrorist attacks. Thus, they launched a serious program of preparedness for their employees. Few companies, and even fewer employees, take their fire drills seriously. Perhaps on September 10 many of Morgan Stanley's employees saw the training as redundant and a waste of time, but on September 12 the program seemed as though it had been inspired by a genius. It was genius indeed, but it was also undoubtedly resilience that was at work for the organization.

The fact is, when people truly stare down reality, they prepare themselves to act in ways that allow them to endure and survive extraordinary hardship. This is also true for successful traders. They're resilient. They can and will train themselves in how to survive before the need arises.

Glossary of Terms

Once again, I have included at the back of my book a handy Glossary of the most common terms you will come across in day trading. If, as you are reading this book, you come across a term or phrase that you don't recognize, please go and have a look at its definition in the Glossary. I've used easy to understand language to explain the "lingo" of day traders.

Chapter 2:
The Trading Tools and Platform

Choosing a Broker

Choosing a broker is one of the most important decisions for new traders as it directly impacts one's ability to day trade properly. However, before I dive into a consideration of brokerage firms, I need to review an important regulation called the Pattern Day Trade restriction (PDT), as it will affect your choice of brokers.

Pattern Day Trade Rule

The U.S. Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) enforce laws that limit the number of trades a trader can make if they are undercapitalized. The rules adopt the term "pattern day trader", which includes any person that day trades (buys and then sells or sells short and then buys the same security on the same day) four or more times in five business days. Under the rules, a pattern day trader must maintain a minimum equity of $25,000 on any day that they day trade. The required minimum equity must be in their account prior to any day trading activities. If the account falls below the $25,000 requirement, the pattern day trader will not be permitted to day trade again until their account is restored to the $25,000 minimum equity level.

Although many new traders who do not have more than $25,000 in their account do not appreciate this rule, and see it as a barrier, it actually is in place to protect amateur traders from losing their limited capital to the high fees and commissions of brokers. It has been established to protect traders, and not to work against them.

This rule represents a minimum requirement, and some broker-dealers use a slightly broader definition in determining whether a customer qualifies as a "pattern day trader". Traders should contact their brokerage firms to determine whether their trading activities will cause them to be designated as pattern day traders.

This rule is strictly enforced by brokerages inside the United States due to their regulation by FINRA. However, offshore brokers, who have their main office and activities outside of the United States, are not subject to this rule and they do not enforce the PDT rule on their customers. This creates an opportunity for new traders who fall below $25,000 in their account to be able to day trade if they open an

account with offshore brokers. SureTrader (based in the Bahamas), the relatively newly established Capital Markets Elite Group Limited (based in Trinidad and Tobago) and Alliance Trader (based in Jamaica) are examples of offshore brokers. These brokers offer no PDT restrictions to undercapitalized traders, and in return they offer a slightly higher commission fee structure than American brokers do.

Using these brokers does require some consideration. The U.S. SEC and FINRA strictly monitor and enforce regulations on U.S. brokers to ensure that customers and traders are protected from brokerage firms. Offshore brokers, on the other hand, are not regulated by U.S. authorities. Offshore brokers are regulated by authorities of the country they are operating in, but often these regulations and regulators might not be as strict and diligent as they are in the United States, and there is an inherently higher risk when working with them. I personally use offshore brokers, but I do not feel comfortable to keep large amounts of money in offshore brokerage accounts for the above-mentioned reasons. For example, I feel comfortable to have $5 to $10,000 in offshore brokerage accounts, but I do not keep $50,000 cash in such accounts. If you have over $25,000 available, there is really no need to use offshore brokers, and you can therefore day trade with U.S.-based brokers.

I recommend that traders who use offshore brokers withdraw their funds regularly, and if they can ever increase their account size to meet PDT rules, they should open an account with one of the U.S.-based brokers.

Other countries and jurisdictions might enforce similar PDT rules for their residents. For example, in Canada, the PDT rule minimum requirement is $10,000 (Canadian dollars), compared to $25,000 in the United States. Therefore, my broker, Interactive Brokers Canada Inc., a division of US-based Interactive Brokers Group, is enforcing a $10,000 requirement for me as a Canadian resident, instead of $25,000. I recommend that new traders contact their local brokers and ask about the minimum requirements for day trading in their jurisdiction.

Conventional Brokers vs. Direct-Access Brokers

Conventional online brokers usually direct customer trade orders to market makers and other liquidity providers through pre-negotiated order flow arrangements. This multi-step process often takes time - from a few seconds to several minutes. These brokers often do not offer a super-fast execution as their services tend to place a greater emphasis on research and fundamental analysis functions over speed execution. These brokers, at times called “full-service brokers”,

provide research and advice, retirement planning, tax tips, and much more. Of course, this all comes at a price, as commissions at full-service brokerage firms are much higher than those at direct-access brokers (which I will explain further below). Full-service brokers are usually well-suited for investors and retail swing traders, but due to the lack of speed execution, they are not a good choice for day traders.

As mentioned several times now, day traders need a fast and flawless order execution as their entry and exit are often only literally one or two seconds apart. I often get in and out of trades in a matter of a few seconds and people wonder how I can do it so fast. Direct-access brokers are the answer to this question. These firms concentrate on speed and order execution - unlike a full-service broker that focuses on research and advice to investors. Direct-access brokers often use complicated computer software that allows traders to trade directly with stock exchanges such as the Nasdaq and NYSE, or with other individuals, via electronic communication networks (ECNs). Direct-access trading system transactions are executed in a fraction of a second and their confirmations are instantly displayed on the trader's computer screen.

This has opened up a new avenue for retail traders like us. Decades ago, it was almost impossible for a retail trader sitting in their home office to trade at the exchanges. You needed to pick up the phone and talk to a broker and ask for trades, a process that might have taken minutes, if not hours. Today, active traders can receive fast transactions along with other services such as streaming quotes and market data, interactive charts, Level 2 Nasdaq quotes and other real time features that previously were accessible only to Wall Street professionals. In the last few years, these brokers have cut down their costs significantly and increased efficiency, which provides traders like us a significantly lower commission than traditional full-service brokers.

Although direct-access brokers are a must for day trading, there are some disadvantages in using them, including volume requirements and technical knowledge. For example, some firms charge inactivity fees if a minimum monthly trading volume has not been met. Interactive Brokers charges a $10 per month inactivity fee on low net value accounts generating less than $10 a month in commissions. Many firms will deduct transaction fees and commissions paid each month from that month's inactivity fee. Hence, an inactivity fee often serves as a minimum monthly commission which is paid to the brokerage. However, not all direct-access brokerages have minimum monthly trading volume requirements.

Another challenge is that new and inexperienced traders may find it difficult to become familiar with direct-access trading. Knowledge is required when dealing with processes and procedures such as making trade decisions and order routing. That is why I always recommend traders practice in their broker's simulator platform and ensure they are very familiar with the platform before they open a real account with that broker. In direct-access trading, you are only one click away from making a dangerous mistake and blowing up your account, while if you are on the phone with an agent in a full-service brokerage, the agent may catch your mistake or advise you before executing your order.

Please note that recently many brokerage firms have begun to offer both direct-access and full-service services (such as advice and research), so it is best to check their websites and enquire about their services.

For example, in Canada, BMO Bank of Montreal InvestorLine, RBC Direct Investing and CIBC Investor's Edge are examples of full-service brokers that are generally not suited for day trading. On the other hand, Interactive Brokers Canada Inc. and Questrade offer both direct-access trading and full-service brokerage services.

In the U.S., some of the most well-known direct- access brokers are TD Ameritrade, Lightspeed Trading, Interactive Brokers and SpeedTrader.

Trading Platform

An electronic online trading platform is a computer software program that is used to place orders for day trading. The trading platform is different from the direct-access brokers themselves. However, I see often that traders confuse these two as one. The trading platform sends and places your order at the exchange so your direct-access broker can clear the order for you. Usually, direct-access brokers offer their own proprietary trading platform to their clients. The quality, charting capability, speed of the software, and many other features regarding the software, varies significantly, which also of course affects their pricing. Many brokers offer their platform for a monthly fee, but they may waive that fee if you make sufficient commissions for the broker. For example, Interactive Brokers offers a trading platform called Trader Workstation (TWS), but it also allows you to use the DAS Trader platform. Lightspeed Trading also offers its own platform called Lightspeed Trader. TD Ameritrade's own software is called thinkorswim. SpeedTrader uses DAS Trader as its platform.

The table below summarizes some of the well-known direct-access brokers for day trading. Please note that there are many more firms that are not listed below.

send my orders to Nasdaq data centers and Interactive Brokers, as my clearing firm, will fill my orders. I pay my trading commissions to IB and a monthly fee to DAS Trader for using their platform and providing me with a real time data feed and Level 2, which I will explain later in this book.

Platform Settings and Chart Indicators

In this section, I explain my DAS Trader Pro platform settings and various windows and tools within it. If you are using other trading platforms, many of these features are still relevant as most of these platforms are similar in terms of layout and functionality, however some may be a bit different. It is best to consult your trading platform software provider for details on some of the features I discuss here. Most of these software programs have excellent starter guides and online video and educational materials that are provided free of charge to the user. I encourage you to spend some time studying the reference materials in order to become familiar with every aspect of your platform.

Figure 2.1 below shows the typical layout of my DAS platform. I will walk you through each window, one by one, and explain how I use them.

Figure 2.1 - Screenshot of my DAS trading platform layout: 1) Top List, 2) Watchlist (or Market View), 3) 1-minute and 5-minute charts, 4) Time and Sale, 5) Montage (or the so-called Level 2).

Top List

The first window is the Top List, which has six columns, with the first three columns for Nasdaq highest volume, highest gainers and highest losers. The other three columns are for listed exchanges (New York Stock Exchange or NYSE, and the NYSE American (formerly the American Stock Exchange/AMEX)). This list provides a good overview of the stocks that are in play that day, and it is being constantly updated. Not all of the stocks that are on the Top List are necessarily tradeable for us day traders though. Often, many famous companies like Apple, Facebook, Bank of America, Microsoft, GE, Ford, etc. are listed because their stocks are always being heavily traded by institutions and Wall Street. Figure 2.2 below is a screenshot of my Top List window.

Figure 2.2 - Top List window in the DAS platform.

If instead of using DAS, you are using a different trading platform, there may be a similar window that shows the overall market activity and active stocks.

Market View

Figure 2.3 below is a screenshot of my Market View window, which is another window in the DAS trading platform. In Market View, you can type in the names of the stocks you would like to monitor and you will see some information about them such as their % change, volume, etc. I personally keep some market indices in my Market View window in order to be easily able to check in on the overall condition of the market.

Figure 2.3 - Market View window in the DAS platform.

Of the various market indices, the most famous ones are:

INDU$: The Dow Jones Industrial Average, also called the Industrial Average, the Dow Jones, the Dow 30, DJIA or simply the Dow, is the most cited stock market index of all. It is one of several indices created by *Wall Street Journal* editor and Dow Jones & Company co-founder Charles Dow. The index is named after Dow and one of his business associates, statistician Edward Jones. It is an index that tracks how thirty large publicly owned companies based in the United States have traded during a standard trading session in the stock market. The Industrial portion of the name is largely historical, as many of the "modern" thirty companies that are indexed (such as Apple, Coca-Cola and Visa) have little or nothing to do with traditional heavy industry.

SPX$: The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is a market index based on 500 large companies listed on the NYSE or Nasdaq. It is one of the most commonly followed stock indices, and many consider it one of the best representations of the U.S. stock market, as well as a bellwether for the U.S. economy. An exchange-traded fund (ETF) that closely tracks the S&P 500 index is SPY or SPDR (pronounced spy or spider). Many traders follow and trade SPY instead of the index itself.

COMP$: The Nasdaq Composite is a market index of the stocks listed on the Nasdaq Exchange. Along with the Dow Jones Average and S&P 500, it is one of the three most-followed indices in U.S. stock markets. The composition of the Nasdaq Composite is heavily weighted toward information technology companies and it represents the "high-tech" sector behavior of the overall market.

Price Chart

The next important window is the price chart. I use two time frames, 1-minute and 5-minute charts, for each stock I am watching. Figure

2.4 below shows an example of a 5-minute chart with all of the indicators and Studies I have marked on my chart.

Figure 2.4 - Example of a 5-minute chart in the DAS platform, marked with my various indicators and Studies. (If you are reading the print version of this book, this figure will appear in black and white. To access a color copy of it, please visit our website at www.BearBullTraders.com/audiobook.)

I use a white background for my charts, and white/red colors for candlesticks. Some traders like to use dark backgrounds and green/red candlesticks. It is a personal choice. I found a white background easier on my eyes, in the same order that people are more comfortable reading books with white pages and black fonts, rather than books with black paper and white fonts. But again, this is a personal choice. Make your platform appealing to yourself and change your colors as you wish.

For day trading, I keep my charts relatively clean, with a minimal number of indicators displayed. In day trading, you need to process information very quickly, and you need to make decisions extremely quickly. Therefore, I cannot keep track of very many indicators. Here is what I have on my charts:

1. Price action in the form of white/red candlesticks
2. Volume of shares being traded and average volume line
3. 9 Exponential Moving Average of price (9 EMA) and 20 Exponential Moving Average of price (20 EMA)
4. 50 Simple Moving Average of price (50 SMA) and 200 Simple Moving Average of price (200 SMA)
5. Volume Weighted Average Price (VWAP)
6. Previous day's closing price
7. Last sale price

All of the above indicators are automatically being calculated and plotted by my DAS Trader Pro platform. I do not find, calculate or plot these manually. I'll explain these terms later.

1. Support and resistance levels

Having important support and resistance levels on your chart is extremely important. Most of the trading platforms do not automatically find and plot levels of support and resistance. These levels have to be identified manually by traders. I usually find and plot these levels during my pre-market screening for Stocks in Play on my watchlist, or during the day when a new stock hits my scanners. I don't trade without knowing nearby significant intraday levels of support and resistance.

I keep the color of all of my moving average indicators in gray except VWAP which is colored in blue. VWAP is the most important day trading indicator and needs to be easily and quickly distinguished from other moving averages. I don't want to have a lot of colors on my charts, so I maintain a white background with mostly red and black coloring. Heavily colored charts are confusing and, over the long term, irritate your eyes and limit your vision. I avoid dark background colors on my charts because my eyes feel achy and weak when processing dark colors for any length of time.

Montage Nasdaq Level 2

Montage is the most important window in your trading platform. Whether you use DAS or another platform, this is the heart and brain of your platform. Much important information can be found in the Montage window.

Figure 2.5 – Example of the Montage window in the DAS platform.

Figure 2.5 above shows an example of the Montage window for FB (Facebook, Inc.). The top section is called Level 1, and information such as previous day close, volume, VWAP, daily range and last sale price can be found there.

The second section is called Level 2, or market depth, and it displays the bid-ask columns and liquidity of the market for the particular stock being shown. I will discuss how to understand and use the Level 2 in detail in Chapter 5. The next section of this window features the Hotkey buttons that traders can define and add to complement their trading style. In Figure 2.5 above, you will see that I have defined the "LONG at mrkt. limit" Hotkey for buying long and I have defined two Hotkeys for selling half and selling all of my position. The second row is comprised firstly of the same Hotkey as the above noted "LONG" one but for selling short. I sell short with my Hotkey, "SHORT at mrkt. limit", and the next two buttons are for covering half and covering all of my position. I will describe the marketable limit order in the following section.

The bottom part of this window contains the manual order entry fields that traders can use to enter their orders manually if they choose not to use Hotkeys. I personally do not use this last part very much, except for the times when I define unconventional stop loss orders. Our Bear Bull Traders website (www.BearBullTraders.com) contains a detailed guide on how to use Montage and I encourage you to check it out.

Buy and Sell Orders

Essentially there are three important types of orders you can use for day trading:

1. Market orders
2. Limit orders
3. Marketable limit orders

Market Orders

When you use *market orders*, you are asking your broker to immediately buy or sell the stock for you at any cost. Let me repeat that: at ANY cost. If you place a market order, it will be filled at the current price, whatever that happens to be. A limit order, on the other hand, allows you to specify the maximum or minimum price you will accept.

In market orders, essentially, you are getting filled at the bad side of bid-ask spreads. A market order buys at the ask (high side) and sells at the bid (low side). The problem with using market orders is that the market can quickly change, and so then does the bid-ask spread. As a result, you may get your order filled at a very bad price. For example, if the bid-ask spread is $10.95-$10.97, you might expect that market orders should buy immediately at $10.97 for you. When your market orders come to the exchange, however, the market might quickly change to $11.10-$11.15, and in that case your buy market order would be filled at $11.15. That is a slippage of 18 cents, and that is really bad.

Market makers and many professional traders make a good living from filling market orders, but I discourage traders from placing market orders at any time. A market order is like a blank check. Most of the time a market order will be filled very closely to the quoted bid or ask price, but sometimes you will get a nasty surprise.

Figure 2.6 – Example of price action manipulation on SNGX on April 19, 2017.

Figure 2.6 above shows the price action of SNGX on April 19, 2017 when the stock hopped up from its previous day close of $2.59 to around $4 – a more than 50% increase in price. I was trading SNGX in the first 5 minutes after the market Open. SNGX was being traded at around $4.20, but I noticed that the stock was constantly spiking down and was also being traded at $2.40. Those bad fills were the result of market orders that the market makers could manipulate.

Those orders were being filled with a significantly bad slippage. Imagine for a moment that you were trying to sell 1,000 shares of SNGX at $4.20 with a market order, but you get filled at $2.60. That is equivalent to a $1.60 slippage per share ($4.20 - $2.60 = $1.60), and that equals a very unwanted $1,600 slippage loss. That is why I always avoid using market orders. Whenever possible, use limit orders or marketable limit orders instead (see below for information on these types of orders).

Figure 2.7 - Example of price action manipulation on NWL on November 2, 2017.

Another example is NWL on November 2, 2017. As you can see in Figure 2.7 above, the stock was being traded below VWAP and I went short at around $31.80 and covered my shorts toward $30.20. However, at around 10:12 a.m., the stock spiked up above VWAP. That again was an example of a market maker manipulation that you should avoid by not using market orders. And, just in case you have not come across the acronym VWAP before, very briefly, the Volume Weighted Average Price of a stock takes into account the number of shares being traded at each price. VWAP lets you know if the buyers or the sellers are in control of the price action.

Limit Orders

A *limit order*, in contrast to a market order, limits the price you are willing to pay for the stock. You specify the number of shares you want to buy and the price you are willing to pay. For example, in the Level 2 screenshot below, marked as Figure 2.8, you will see I have two limit orders. I asked my broker to buy me 100 shares of TEVA at $34.75, and another 100 shares at $34.74. “SIZE” is the number of lots of shares, with one standard lot equaling 100 shares. As you can see, my orders are now sitting in Level 2, waiting to get filled. There is no guarantee that I will get filled at those prices. If the price moves higher, I will never get filled and my order will stay in Level 2 until the price moves back down. Sometimes the order will come back partially filled because the price of the stock moved up too quickly. Swing traders commonly use limit orders.

Figure 2.8 – Example of the Nasdaq Level 2 for Teva Pharmaceutical Industries Limited (ticker: TEVA) in the middle of the day. I have two limit orders to buy in total 200 shares on the bid. Note that the number of shares (“SIZE”) is in hundreds (×100). SMRT is the default clearing route for my broker, IB.

Marketable Limit Orders

The third most important type of order for day traders is a *marketable limit order*. Marketable limit orders, once sent, will immediately give you as many shares as possible within the price range you have set. In marketable limit orders, you ask your broker to buy or sell stock for you immediately, but you specify the highest price you are willing to pay. For example, in the above Figure 2.8, the Level 2 for TEVA, you can ask your broker to buy 100 shares at "ask price + 5 cents". Your broker will go to the ask and try to fill your order. As you can see in the top three highlighted rows on the right-hand side of Figure 2.8, there are currently 1,100 shares offered at ask ([4 + 4 + 3 = 11] × 100). Therefore, you should get filled immediately (like a market order). But, if the ask price moves up quickly before you get filled, you have already authorized your broker to buy TEVA for you at a higher price as well, up to $34.82 (ask of $34.77 + 5 cents). Therefore, your broker will try to buy 100 shares of TEVA for you at a cost of no more than $34.82.

A similar example is also true for either selling or short selling on the bid. In selling on the bid, you specify the range you are willing to sell at. For example, if you ask your broker to sell at "the bid – 5 cents", it means that you are not willing to sell at a price lower than the bid minus 5 cents.

I use marketable limit orders for all of my day trades. I typically buy at the "ask + 5 cents" and sell at the "bid - 5 cents". A little later in this chapter I will show you details of my order Hotkeys.

Stop Loss Orders

Stop loss orders are buy or sell orders that are sent to the market once a stock reaches a certain price. They can be used to limit your losses on a losing trade or protect your profits on a winning trade. For a long position, a stop sell order is placed below the current price. For a short position, a stop buy order is placed above the current price. The following examples are for setting a stop on a long position of Facebook, Inc. (ticker: FB).

There are four types of stop orders in DAS Trader Pro. Each one allows you to automatically exit a position using predefined parameters. Depending on which order entry style is selected, the steps will differ slightly. First, let's take a look at how to change the order entry style in the Montage window, as set out in Figure 2.9 below.

1. Right-click the bottom area of the Montage (below the yellow bar)
2. Navigate to **Style**

3. Different styles will be listed
4. Note the **Default** style is selected in the figure below

Figure 2.9 – Example of how to change the order entry style in the Montage window.

Default Style

With the **Default** order entry style selected, there are a limited number of fields available in the order entry area. Pressing **SELL** or **BUY** will open a new window with additional options such as order type, trigger price, limit price, etc., as set out in Figure 2.10 below.

Figure 2.10 – Example of how to select Stop Order Type in Montage.

Stop Style

The **stop order** entry style contains all of the required fields to send your order to the market. See Figure 2.11 below for a screenshot of this. Pressing **SELL** or **BUY** will activate the order without any additional windows or confirmation.

Figure 2.11 – Example of the stop order entry window in Montage.

The examples in what follows will demonstrate how to use each of these four **stop order** styles.

Stop Market

A Stop Market order becomes a market order once the trigger price is hit. In this example, I am long 100 shares of FB with an average cost of $166. I want to exit the position if the price falls $1 below my entry, or to $165. If FB reaches this price, a market sell order will be sent to sell the 100 shares. To enter a Stop Market order:

1. Ensure that the correct number of shares is entered, or press **P** to automatically populate the field with the current open position of 100 shares
2. Select **STOP** from the route dropdown
3. Select **Market** from the Stop Type dropdown
4. Enter **165** in the Trigger Price field
5. Press **SELL**

See Figure 2.12 below for a screenshot of these steps in the appropriate window in Montage.

Figure 2.12 – Example of how to enter a Stop Market order in Montage.

Confirm that the Stop Market order appears correctly in the **Orders** window, with Type **SM:165**, as per the screenshot in Figure 2.13 below:

Figure 2.13 – Screenshot of confirmation of entry of Stop Market order.

Alternatively, you can script a Hotkey to send a Stop Market order. Here is an example for sending a Stop Market order at $1 below average cost:

Share=Pos;ROUTE=STOP;StopType=Market;StopPrice=AvgCost-1;TIF+;SELL=Send;

Stop Limit

A Stop Limit order becomes a limit order once the trigger price is hit. The limit order is then filled at the specified limit price or better. This is useful for when prices are moving very fast with momentum. Using a Stop Market order (described above) may cause you to be filled at a price much lower than the trigger price. Conversely, a Stop Limit order is not guaranteed to be filled if the price drops quickly below your limit price. This may leave you stuck in the position.

For example, I am long 100 shares of FB with an average cost of $160. The current price is $166. I want to protect my profit and exit if the price falls below $163. However, I am only willing to exit if I am filled at $162.75 or better. Once FB reaches $163, a sell limit order will be sent to exit the position at $162.75 or higher. To enter a Stop Limit order:

1. Select **STOP** from the route dropdown
2. Select **Limit** from the Stop Type dropdown
3. Enter **162.75** in the Price field
4. Enter **163** in the Trigger Price field
5. Press **SELL**

See Figure 2.14 below for a screenshot of these steps in the appropriate window in Montage.

Figure 2.14 – Example of how to enter a Stop Limit order in Montage.

You can also use a Hotkey to send a Stop Limit order. Here is an example for sending a Stop Limit order at 2% below average cost, with a limit $0.25 below the trigger price:

```
Share=Pos;ROUTE=STOP;StopType=Limit;StopPrice=AvgCost*.98
+;SELL=Send;
```

Trailing Stop

A Trailing Stop order acts as a moving stop loss to protect profits, while also maximizing gains should the price continue going upward. It allows you to set a stop price at a fixed amount below the market price, called a *trailing amount*. If the market price rises, the stop price follows behind it. However, if the stock price falls, the stop loss price does not change. Think of it as a one-way stairway — the stop price can only take steps up. Once the stop price is hit, the order becomes a market order.

For example, I am long 100 shares of FB and the price is at $165. I place a $2 Trailing Stop order. This sets the initial stop price at $163. The price then moves up to $167. The new stop price is now $165. If the price moves down to $166, the stop price remains at $165. If FB falls to $165, a market sell order will be sent to exit the position. On the other hand, if FB continues climbing to $175, my $2 trailing amount will be right behind it the entire way up. In other words, I am specifying a maximum loss of $2, but no maximum gain. To enter a Trailing Stop order:

1. Select **STOP** from the route dropdown
2. Select **Trailing** from the Stop Type dropdown
3. Enter **2** in Trailer Price
4. Press **SELL**

See Figure 2.15 below for a screenshot of these steps in the appropriate window in Montage.

Figure 2.15 – Example of how to enter a Trailing Stop order in Montage.

You can also use Hotkeys to send a Trailing Stop order. Here is an example for sending a Trailing Stop order with a trailing amount of $0.50:

```
Share=Pos;ROUTE=STOP;StopType=Trailing;TrailPrice=0.50;TIF=
+;SELL=Send;
```

Stop Range

Stop Range orders allow you to set both a stop loss and a target price. When one of the prices is triggered, the other order is cancelled. This order type is also called a *One-Cancels-the-Other* (OCO) order or a *Bracket* order. The first part of the order — the stop loss — is set below the market price. The second part — the profit target — is set above the market price. This is a great way to let a trade pan out without having to actively manage it.

For example, I am long 100 shares of FB and the price is at $165. I intend to sell if the price falls to $163 and accept the loss. This is my stop order. I want to take profit if the price reaches $169. This is my sell order. When the price reaches one of these levels, the other order is cancelled immediately. To enter a Stop Range order:

1. Select **STOP** from the route dropdown
2. Select **Range** from the Stop Type dropdown
3. Enter **163** in the Lo Range
4. Enter **169** in the Hi Range
5. Press **SELL**

See Figure 2.16 below for a screenshot of these steps in the appropriate window in Montage.

Figure 2.16 – Example of how to enter a Stop Range order in Montage.

Hotkeys

Hotkeys are key commands that can be programmed to automatically send orders with the touch of a combination of keys on your keyboard. Professional traders will use Hotkeys to enter trades, exit trades, place stop orders, and cancel orders. They don't use a mouse or any sort of manual order entry system. The use of Hotkeys eliminates the delays created by manual entries. The volatility of the market, especially at the Open, can allow for huge profits if you can trade properly, but it can also result in significant losses if you fail to act quickly. Often, the proper use of Hotkeys is the factor that separates the losers from the winners.

Most of the day trading strategies I use require high-speed trading. In day trading, the market can move very fast, especially at the market Open. Stocks can very quickly hit your entry or exit price, often in a matter of seconds. In order to be able to day trade effectively, it is important to use a trading platform that offers Hotkeys. For high-speed trading, you should have all of the possible trade combinations in your Hotkeys. In my opinion, it is almost impossible to day trade profitably without using Hotkeys. It is best to check with your broker and trading platform support team to ensure you are familiar with how to write a proper script for your Hotkeys.

For a long position (you'll recall that "buying long" means you buy shares at one price and hope to sell them at a higher price), my buy orders are in blocks of 400, 200 and 100 shares. I use a marketable limit order to buy at the ask price + 5 cents. My "sell" Hotkeys are marketable limit orders to sell my half or full positions on the bid price - 5 cents. When selling, I will accept the bid price and a price no more than 5 cents lower, to ensure my order gets filled immediately. The DAS platform will automatically calculate what half of my position equals in number of shares. The computer will also calculate the current bid and ask prices and place my order at the price I specify.

Similarly, for short positions (you'll recall that "short" means you borrow shares from your broker, sell them, and hope to later buy back the shares at a lower price for return to your broker), I short sell on the bid price or on a price no more than 5 cents lower. My "buy to cover shorts" Hotkeys are marketable limit orders to buy my half or full positions on the ask price + 5 cents. I am willing to pay higher prices (up to 5 cents) to asks, just to get my orders filled immediately.

Short Selling Restriction

A short selling restriction (SSR) is triggered when a stock is down 10% or more from the previous day close. In that case, regulators and the exchanges restrict short selling of the stock when its price is dropping. You can only sell short on the ask, you cannot sell short directly to the buyers (on the bid). It means that the priority for selling is for the sellers who currently hold positions, not for the short sellers who are wanting to profit from the downward movement. If you want to sell short, you have to queue up on the ask side and wait for buyers to come to you. Real sellers, on the other hand, can accept bids from buyers and get rid of their positions.

The SSR is designed to give the real sellers, who own the stock, a priority to sell over the short sellers on the market. Therefore, when a stock is in SSR mode, I send my orders to sell on the ask, and then I must wait until my orders get filled. I cannot use a marketable limit order for short selling when a stock has an SSR placed on it. For more information about SSR, Google it on the Internet, send me an email, or check our website Forum for additional information.

The most important advantage of Hotkeys is that when a stock suddenly moves, you can press your Hotkey to sell your full or half-position on the bid without having to type in the new bid price or your number of shares. It is impossible to consistently profit from day trading without mastering Hotkeys. Part of your education includes trading in simulators for a few months, and during these months, you must master your Hotkeys. I have made many mistakes while using Hotkeys and you no doubt will also make some. That is part of the learning process in day trading, and that is why it is extremely important to practice in real time simulators and practice with Hotkeys while you are mastering trading strategies. Hotkeys are an amazing tool, but they must be used with caution and with sufficient practice to prevent errors. Day trading is difficult enough. Don't let unfamiliarity with your Hotkeys make it even more difficult.

It is very common to make some mistakes when you are getting used to Hotkeys. When I was learning to use them, I had stickers on my keyboard to help me to keep track of the different key combinations. When I try to define new Hotkeys, I always make sure that I practice with them only in my simulator account. It takes some time, but eventually you will remember your Hotkeys and use them efficiently. Another important reminder is to always use a wired keyboard that is plugged into your computer. Wireless keyboards can send repeat keystrokes, errant keystrokes, or can fail to send orders at all,

especially when low in battery power. This could impact and quite simply mess with your trading. I have seen traders end up in difficult and costly situations because their wireless mouse or keyboard was low in battery power and did not work properly. I even keep an extra keyboard in my office, ready to go, just in case something happens to the keyboard I'm using. On one occasion, I spilled water on my keyboard while trading, and the keyboard stopped working. Fortunately, I did not have any open position at that moment. I immediately purchased two new sets of keyboards and mice and I keep one set as a backup next to my trading desk.

Real Time Market Data

Because swing traders enter and exit trades within days or weeks, end-of-day data that is available on the Internet for free is sufficient for them. But day traders need real time intraday data because they enter and exit trades within a few hours, and often within a few minutes. Unfortunately, real time market data is not free, and you need to pay a monthly fee to your broker (or in my case to DAS Trader since I do not use the Interactive Brokers' platform) depending on the type of market data you need access to. Which market data you should buy depends on the market that you are trading. If you are planning to trade in the Canadian market, you need real time Toronto Stock Exchange (TSX) data. I largely limit my trading to the U.S. markets because of its high volume (liquidity) and volatility, therefore I need Nasdaq real time data. Unfortunately, without real time market data, you cannot day trade properly.

If you also are planning to primarily trade in the U.S. markets, contact your broker and ask for the real time Nasdaq TotalView Level 2 data feed. You may need to pay a monthly fee for your data depending on your broker.

Nasdaq Level 2 and Bid-Ask

As part of your data feed package, you will have access to Nasdaq Level 2. Level 2 can provide important insight into a stock's price action, including what type of traders are buying or selling a stock and where the stock is likely to head in the near term. Level 2 is known to be a "leading indicator", which means it shows activity before a trade happens. Moving averages, charts and most of the other indicators are known as "lagging indicators", meaning they provide information after the trades take place.

Level 2 is essentially the order book for Nasdaq stocks. When orders are placed, they are placed through many different market makers and other market participants. Level 2 will show you a ranked list of the best bid and ask prices from each of these participants, giving you detailed insight into the price action. Knowing exactly who has an interest in a stock can be extremely useful, especially if you are day trading. Figure 2.17 below is an example of what a Level 2 quote looks like:

Figure 2.17 - Example of the Nasdaq Level 2 for MOMO Inc. (ticker: MOMO) in the middle of the trading day. Note that the number of shares (the "SIZE") is in hundreds ($\times 100$).

Whenever the market is open, there are always two prices for any trading stock - a bid and an ask. A *bid* is what people are offering to pay for that stock at that moment; an *ask* is what sellers are demanding in order to sell it. A bid is always lower, an ask is always higher, and the difference is called the *bid-ask spread*. Bid-ask spreads vary for each stock and even for the same stock at different times of the day.

Figure 2.17 above shows you (first row, right-hand side of the chart) that someone is offering 300 shares (3 (the "SIZE", the number of lots of shares) x 100 shares/lot) of MOMO for $37.27 on the ask side through EDGX (a market maker). Another trader is selling 100 shares at $37.27 through BATS, a different market maker. On the bid side, there are various market players who are willing to buy shares of MOMO at a price of $37.23. Traders who want to buy MOMO at various prices are sending their bids through market makers to the bid side of the Level 2 (BATS, NASD and NSDQ are some of the market makers active on this stock).

The most important information you must take away from Level 2 is

the bid-ask spreads. Spreads are higher in lower volume traded stocks, as the market makers who dominate such stocks demand higher fees from those who want to join their party.

The bid-ask spreads are likely to be small, perhaps only one cent on a quiet day in an actively traded stock. They grow wider as prices accelerate on the way up or down and may become huge — I have seen up to $2 — after a severe drop or a very sharp rally.

Chapter 3:
Building Your Trading Watchlist

Your next challenge as a new trader is knowing how to find stocks for day trading. Every trader, before the market opens, must have a number of stocks on their radar that they will monitor for trading opportunities. This is called the watchlist. In this chapter, I will explain how to find Stocks in Play in the pre-market, and how to use real time scanners to find stocks during the market Open. There are too many new traders who do not know what a good stock to day trade is, nor how to find one, and they waste too many trading days getting chopped up by computers and high frequency trading, mistakenly believing that the market is impossible to day trade in.

Stocks in Play

"You are only as good as the stocks that you trade" is an often-repeated saying in the trading community. You can be the best trader in the world, but if your stocks do not move or have enough volume, then you cannot make money consistently. Trading a stock that doesn't move is a trading day wasted. You don't just look though for stocks that simply move. You also want to be able to determine that they will move in a certain direction. It is possible that a stock that moves $5 intraday may never offer you excellent risk/reward opportunities. Some stocks move too much intraday without foreshadowing their direction.

I often get emails from traders saying that they struggle with finding the right stocks to trade. Many of them understand how trading works and have a proper education and the right gear for day trading, but when it comes to actually finding stocks to trade in real time, they are clueless. I certainly experienced this as a new trader. If you learn the strategies explained in Chapter 6, but you cannot make money consistently, it is possible that you are in the wrong stock. Again, you are only as good as the stocks that you trade. You need to find the stocks that are in play by day traders or, as I call them, *Stocks in Play*.

There is more than one way to select Stocks in Play and make money trading them, and there is definitely more than one correct way. This chapter details how I and many of the traders in our community find Stocks in Play. Of course, this is not the only correct way. Some traders trade baskets of stocks and indices. While I avoid trading exchange-traded funds (ETFs), some day traders, like my friend Trader Brian, very regularly trade them. Many have developed proprietary filters to find stocks. Others concentrate on trading the markets as a whole with index futures. Often professional traders at the trading desks of the big banks simply trade in a sector like gold or oil or tech. But remember, we are retail traders with limited amounts of capital, so we must be efficient with selecting our Stocks in Play. As a day trader, you must be efficient with your time and buying power.

A Stock in Play is a stock that offers excellent risk/reward setup opportunities - opportunities where your downside is 5 cents and your upside is 25 cents, or your downside is 20 cents and your upside is one dollar. That's 1:5. You can regularly read a Stock in Play that is about to trade higher or lower from its present price. Stocks in Play move, and their moves are predictable and frequent and catchable. A good intraday stock offers numerous and excellent risk/reward opportunities.

Every day, there are new stocks that are in play. Trading Stocks in Play allow you to be the most efficient with your buying power. They often offer much better risk/reward opportunities intraday and allow you to execute your ideas and trading rules with more consistency. Trading the right Stocks in Play can help you to combat algorithmic programs.

What are Stocks in Play? They could be, in no particular order:

- A stock with fresh news
- A stock that is up or down more than 2% before the market Open
- A stock that has an unusual pre-market trading activity
- A stock that develops important intraday levels from which you can trade off

You need to keep in mind that retail trading does not work on all stocks. It only works on the stocks that have *high relative volume*. Some stocks like Apple Inc. (ticker: AAPL) will on average trade millions and millions of shares each day, while other stocks on average might trade only 500,000 shares each day. Does this mean you should trade AAPL only? No. High volume will be relative from one stock to another. You don't look just for high total volume. There are some stocks that regularly trade with high volume. What you need to look for is what is above average for that specific stock. Thirty million shares of AAPL traded in one day might very well not be higher than usual, and you should not trade AAPL unless it has a very unusual trading volume. If trading volume is not higher than normal, it means that the trading is being dominated by institutional traders and high frequency trading computers. Stay away from it.

Figure 3.1 - KORS daily chart for the summer of 2017. The days that KORS had a significant relative volume are marked. Those days were suitable for day trading KORS.

Figure 3.1 is the daily chart for the summer of 2017 for Michael Kors Holdings Ltd. (ticker: KORS). It shows that there were only three days that had high relative activity. They're marked with arrows on the chart. Interestingly enough, when you take a close look at the chart, you realize that on those days the stock gapped up or down. I marked those price gaps on the chart. If you wanted to trade KORS, you should have traded it only on those days. The other days were comprised of just normal, high frequency, algorithmic trading and, of course, retail traders should stay away from stocks that are trading normally.

The most important characteristic of high relative volume stocks is

that these stocks trade independent of what their sector and the overall market are doing. When the market is weak, it means that the majority of stocks are selling off. It does not matter if it is Apple, Facebook, Amazon, or Exxon Mobil. When the market is strong, the prices of the majority of stocks will be going higher. Similarly, when you hear someone say the market is "bear" or "collapsing", they aren't referring to a specific stock. They mean that the whole stock market is losing its value - all stocks together. The same is true for specific sectors. For example, when the pharmaceutical sector is weak, it means all of the pharmaceutical companies are losing their values together.

How do you recognize the behavior of the market? Index funds that were explained in Chapter 2, such as the Dow Jones Industrial Average (DJIA or INDU$) or the S&P 500 (SPY), are usually good indicators of what the overall market is doing. If the Dow Jones or the SPY are red, it means that the overall market is weak. If the Dow Jones or the SPY are strong, then the overall market will be going higher.

The behavior of stocks that have high relative volume independent of the overall market are referred to as Stocks in Play. Every day, only a handful of stocks are being traded independently of their sector and the overall market. Day traders trade only those stocks. I sometimes call those stocks "*Alpha*", because in the animal kingdom, alpha is a predator at the top of a food chain upon which no other creatures prey. In day trading, alpha stocks are the ones that are independent of both the overall market and their sector. The market and high frequency trading cannot control them. We call these Stocks in Play.

It is wise to remember this rule:

Retail traders trade only Stocks in Play - high relative volume stocks that have fundamental catalysts and are being traded regardless of the overall market.

Figure 3.2 - My scanner's Gappers watchlist showing that LB was gapping down significantly in the pre-market on August 17, 2017.

To illustrate this, let's review the price action of LB on August 17, 2017. Figure 3.2 shows that LB was gapping down significantly in the pre-market by 8.2%. If you look at Figure 3.3, comparing the trading day behavior of SPY (as an overall market indicator) with LB, you will see that they are completely the opposite of each other.

Figure 3.3 - Comparison of the trading day behavior of LB and

SPY. You will note that the overall market is selling off (SPY is considered an overall market indicator), but at the same time LB is moving upward.

What makes a stock a Stock in Play? Usually it is the release of fundamental news about the stock either the day before or during the same trading day. Important news or events for companies can have significant impacts on their value in the market and therefore act as fundamental catalysts for their price action.

Here are some examples of the fundamental catalysts for stocks that make them suitable for day trading:

- Earnings reports
- Earnings warnings or pre-announcements
- Earnings surprises
- FDA approvals or disapprovals
- Mergers/acquisitions
- Alliances, partnerships or major product releases
- Major contract wins/losses
- Restructurings, layoffs or management changes
- Stock splits, buybacks or debt offerings

I check the news on all stocks up or down more than 2% pre-market and shortlist my Gappers watchlist (which I will explain further along in this book). Stocks in Play the day before are often still in play for a few days after.

In Chapter 6, I explain specific day trading strategies such as Bull Flag, Fallen Angel and VWAP. For the moment, your main question needs to be, how do I find the stock for each strategy? I categorize stocks for retail trading into three classes. Based on my experiences, this categorization provides some clarity on how to find stocks and on how to adopt a strategy for them.

Float and Market Cap

Before explaining the three categories, let me explain the definition of "*float*" and "*market capitalization*" or "*market cap*". Float means the number of shares available for trading. Market cap is the total market value of all of a company's shares. It is calculated by multiplying a company's float by the current market price of one share. For example, as of May 13, 2018, Apple Inc. has the greatest market capitalization at $927.86 billion, assuming a price of $188.59 per share. Apple is considered a "*mega cap*" stock as it has issued 4.92 billion shares as of May 13, 2018. These stocks usually don't move much during the day because they require significant volume and money to be traded, so Apple shares might on average change by only one or two dollars each day. They are not very volatile, and therefore day traders don't like trading them. Day traders look for volatility.

On the other hand, there are some stocks that have a very low float. For example, Cesca Therapeutics Inc. (ticker: KOOL) has only a 1.2-million-share float. This means that the supply of shares of KOOL is low, and therefore a large demand can very quickly move the price of the stock. Low float stocks can be volatile and move very fast. Most of the low float stocks are under $10 because they are early stage companies that, for the most part, are not profitable. They hope to grow, and by growing further, they issue more shares, raise more money from the public market, and slowly become mega cap stocks. These low float stocks are also called "*small cap*" or "*micro-cap*" stocks. Day traders love low float stocks. Now let's look at those three categories.

The first category consists of *low float* stocks that are priced under $10. These stocks are extremely volatile, moving 10%, 20%, 100% or even 1,000% each day. Yes, there have been those kinds of moves! You must be careful with this category. Just as you can turn your $1,000 into $10,000 in a single trade, your $1,000 can just as easily turn into $10. Low float stocks under $10 are often highly manipulated and difficult to trade, and therefore only very experienced and highly equipped retail traders should trade these stocks. I personally rarely trade in them. If someone claims to have turned $1,000 into $10,000 in a month, and if it's true, they must have traded this type of low float stock. No beginner or even intermediate trader can trade with such accuracy and efficiency. If novice traders tried trading low float stocks that are under $10, they would more likely turn their $1,000 into nothing in a matter of days.

When it comes to low float stocks, the Bull Flag and Fallen Angel

Strategies — which I detail in Chapter 6 - work best. The other strategies in this book are not suitable for low float sub-$10 stocks.

You generally cannot sell short low float stocks. For short selling, you need to borrow shares from your broker, and it's rare that a broker will lend you such volatile stocks. Even if your broker is willing to lend them to you, I strongly advise that you do not attempt to short sell them. They can easily surge and you will end up wiping out your account. You definitely can become a full-time profitable day trader without short selling risky stocks, so leave that to the Wall Street professionals.

Trading low float stocks is very difficult for the new trader. It is difficult to read the direction of their next move, and therefore it is very difficult to manage your risk while trading them. I discourage new traders from trading low float stocks. When the new trader is wrong, that loss can wipe out many gains.

The second category is *medium float* stocks which are often in the range of $10 to $100. These stocks have medium floats of around 20 million to 500 million shares. Many of my strategies explained in this book work well on these stocks, especially the VWAP and ABCD Pattern. Medium float stocks that are more expensive than $100 per share are often not popular among retail day traders, and I myself avoid them. You usually cannot buy many shares of them because of their high price.

The third category of stocks for trading is m*ega cap* stocks like Apple, Alibaba, Yahoo, Microsoft, and Home Depot. These are well established companies that usually have over 500 million in public shares available for trading, and their stocks are traded in millions of shares every day. As you may guess, these stocks move only when institutional traders, investment banks, and hedge funds are buying or selling large positions. Retail traders like us, who typically trade 100 to 1,000 shares, usually cannot move the price of these stocks. Retail traders should avoid them unless there is a good fundamental catalyst for them. From the strategies set forth in Chapter 6, similar to medium float stocks, VWAP and ABCD Strategies usually work well on these stocks. Do not forget though, unless there is a fundamental catalyst, these stocks are being heavily traded by computers and high frequency traders and are not suitable for retail day trading.

The table below summarizes these categories:

Price Range	***Best Strategy (Chapter 6)***
Low float (less than 20 million)	Bull Flag and Fallen Angel
Medium float (20 million to 500 million)	VWAP and ORB

(20 to 500 million)
Large float (+500 million)

Low float stocks are extremely volatile and difficult to trade. These stocks move really fast and because they are lower priced, their moves result in a more significant percentage change in your position. For example, when you trade a stock at $1 per share, every 1 cent tick to the upside or downside represents a 1% fluctuation in your position, while when you trade a stock at $40 per share, a move of one cent represents only a 0.025% fluctuation. Therefore, it is extremely more difficult to manage the risk involved in your trading while you are in a position in low float stocks.

Traders often call these low float stocks “runners” or, when they review them in the pre-market, “former runners”. This basically means that if they get the volume, these stocks can move significantly intraday. For example, Figure 3.4 shows the daily chart of Recon Technology, Ltd. (ticker: RCON), a stock with a float of only 11.4 million shares. As you can see, most of the time its stock is not being traded and it has a very low average daily volume. But on January 9, 2018, when important news about the company was released, the stock traded from $2 to above $5.50 (an almost 300% move intraday) with heavy volume. A similar example can also be seen in this Figure 3.4, the daily chart of Chinanet Online Holdings Inc. (ticker: CNET) with a float of 7.6 million shares. When CNET was the subject of positive news because of the growth in cryptocurrency, its stock moved from $2 to almost $12, an approximate move of over 600%.

Figure 3.4 - Former runners CNET and RCON.

One main source of inconsistency in the results of new traders is that they actually trade various types of stocks and yet get different results. A new trader will lose big on low float stocks, and then they will win small on medium float stocks. They will then again make a good trade on a low float stock and win big. That is why their portfolio often fluctuates up and down without any meaningful direction, but gradually, and at times not so gradually, their capital usually shrinks.

I strongly advise traders to avoid trading low float stocks at the beginning of their career and instead focus on developing their skill in trading medium float stocks. Based on my experience, trading and losing on low float stocks is the number one reason new traders blow up their accounts.

Pre-Market Gappers

Experienced traders are sensitive to being in the right stocks at the right time because you can be the best trader in the world, but if you are in the wrong stock, you will lose money. As I mentioned, traders are only as good as the stocks they trade. Every morning, our trading community uses Trade Ideas scanners that are programmed to find Stocks in Play. Our Stocks in Play can be found in two ways:

- Pre-market morning watchlist
- Real time intraday scans

Our pre-market Gappers Scanner is set based on the following criteria:

- Stocks that in the pre-market gapped up or down at least 2%
- Stocks that have traded at least 100,000 shares by 9 a.m. in the pre-market
- Stocks that have an average daily volume of over 500,000 shares
- Stocks that have Average True Range (ATR) of at least 50 cents (how much of a range a stock has on average every day)
- There is a fundamental catalyst for the stock

Why these criteria?

When there is a fundamental catalyst, there will be unusual pre-market activity and a Stock in Play will have gapped up or down before the market opens with a significant number of shares being traded (such as 100,000 shares).

I look for highly liquid stocks, so that buying and selling 1,000 shares will not be a problem. That is why I am looking at stocks with an average daily volume of over 500,000 shares. I also am looking for stocks that usually move in a good range for trading. That is why I look at the ATR. As mentioned above, ATR means how large of a range a stock has on average every day. If ATR is $1, then you can expect the price of the stock to move around $1 daily. That is a good number. If you have 1,000 shares, you may profit $1,000 from the trade. But if ATR is only 10 cents, then that trading range is not attractive for me.

Figure 3.5 is an example of how my watchlist will form. On April 17, 2017 at 9 a.m. New York time, my scanner showed these stocks:

Figure 3.5 - My Gappers watchlist and its setting window on April

17, 2017 at 9 a.m. Eastern time. As you can see, I entered the parameters that I was looking for. There are many parameters, such as Float, Short Float, Price, Change from the Close, etc., that traders can define in order to create a personalized watchlist that best suits their own trading style and personality.

In the top part of Figure 3.5, you can see that I have highlighted the Gap (%) and Float columns on my watchlist. From over 7,000 stocks, I now have only five candidates. I will review each of these companies before the market opens at 9:30 a.m. I will check the news on each of them to learn why they have gapped up or down. Is there a fundamental catalyst for that stock? Has there been any news coverage or any indication of an extreme event for that company?

From those five stocks, after my investigations, I usually select two or three to watch closely. You can't adequately watch eight stocks, and regardless, there are usually no more than two or three good candidates. I watch the best two or three candidates closely on my screens, looking for potential setups. I plan my trades before the market opens and then I wait for the market bell. I then trade my plan.

Using my Gappers Scanner, I am sometimes unable to identify even one stock that fits my criteria for being in play. In those cases, I watch my intraday real time scanner to find Stocks in Play (which I will explain later in this book). My first choice though will always be a Stock in Play that I find on my pre-market Gappers watchlist.

How to Select Your Final Watchlist

My next step is to narrow down the list of stocks that hit my Gappers watchlist. I may at times have over ten stocks hit my pre-market Gappers watchlist, but are all of them tradeable or should all of them be on my final watchlist? No.

Aside from investigating any fundamental catalysts, to better narrow down my selections I also look at the pre-market activity of each candidate. I am looking for: 1) clean and uniform pre-market price action, and 2) clean trading levels.

What do I mean by clean and uniform pre-market price action? Let's take a look at a few examples.

Figure 3.6 - INCY pre-market activity.

Figure 3.6 shows INCY's pre-market activity, one of the stocks that hit my Gappers watchlist on April 17, 2017 (Figure 3.5). As you can see, INCY had a relatively uniform volume distribution in the pre-market,

and the price action on its 5-minute chart is also clean. The stock became active at around 7 a.m., and slowly moved up with some clean levels around $127. It also held the 9 Exponential Moving Average as a potential support.

ALR also appeared on the Gappers watchlist of April 17, 2017. Its pre-market activity can be seen in Figure 3.7. As you can see in Figure 3.5, the Gappers watchlist, ALR had about 3.8 million shares being traded in the pre-market, but when you study the chart more closely (Figure 3.7), you will see that the pre-market price action is almost "flat" with no swings or variations in price. This kind of price action is not good for day traders. High volume with no volatility in the pre-market is often a sign of "buyout" news. This means ALR has been acquired at an agreed price and although it has gapped up, there will be no trading opportunity during the day. In fact, after checking the news, I learned that Abbott Laboratories (ticker: ABT) had announced on Friday, April 14, 2017 an agreement to acquire Alere Inc. (ticker: ALR) for $51 per share.

Figure 3.7 - 5-minute chart showing ALR's pre-market activity on Monday, April 17, 2017. ALR had been acquired by Abbott Laboratories on Friday, April 14, 2017 for $51 per share, and its price action is flat and close to the acquisition price. There is thus no point in trading ALR.

Buyout gaps are very common in the market, but remember, they are not tradeable. When a company acquires another company, the price is determined and usually there will be no volatility in the price for you to trade on. Figure 3.8, for Tuesday, January 16, 2018, shows another buyout example: Blackhawk Network Holdings, Inc. (ticker: HAWK) was acquired by Silver Lake and P2 Capital Partners for $45.25 per share (total deal: $3.5 billion). This new acquisition price represents a gap of 24% over HAWK's closing share price of $36.50 on the previous trading day of Friday, January 12, 2018 (Monday, January 15, 2018 was a holiday in the United States). It is a big gap up, but it is not tradeable.

Buyouts can usually be identified quite easily by two indicators:

1) price action in the pre-market is almost flat and close to the acquisition price for the company (usually slightly lower). In the case of HAWK, at the pre-market, the stock is being traded at $44.95/ share, close to its acquisition price of $45.25 per share; and

2) there is heavy volume being traded at a fixed price. These volumes represent institutional trading and investors.

Figure 3.8 - 5-minute chart showing HAWK's pre-market activity on January 16, 2018. HAWK had just been acquired by two other companies for $45.25 per share, and its price action is flat and close to the acquisition price. There is thus no point in trading HAWK.

Another example of a bad price action can be seen in the pre-market activity of NSAT in Figure 3.9. As you can see, NSAT has gapped up, but the price action and volume in the pre-market is not clean.

Figure 3.9 - NSAT pre-market activity.

Narrowing down stocks in the pre-market can be subjective at times and traders may have different opinions about certain pre-market activity. Your skill at finding the right stocks for your final watchlist each trading morning will improve with experience.

The price action for another stock on my April 17, 2017 watchlist, HTGM, can be seen in Figure 3.10. As you can see, the pre-market price action is relatively clean and uniform, with decent trading levels.

Again though, I must emphasize that the definition of clean price action is relative from trader to trader, and it also might be different from day to day. Every morning, your job is to find the best price action. Some days you may have many stocks demonstrating excellent price action and decent volume, but there will be other days that you might have only a handful of half-decent stocks. But remember, it is better not to have any stocks on your watchlist than to have stocks with low volume and no pre-market activity.

Figure 3.10 - HTGM pre-market price action.

As I mentioned before, to select the best stocks on your watchlist, you are looking for two elements in the pre-market: volume and clean price action. It is important to emphasize that you need both, having large volume being traded at the pre-market is not enough. To illustrate this example, let's look at Figure 3.11, my Gappers watchlist on October 25, 2017.

Figure 3.11 - My Gappers watchlist on October 25, 2017 showing PHG.

As you can see, PHG has gapped up over 2% with over 281,000 share volume. It seems to be a good candidate for trading, however a closer look at its price action in the pre-market shows otherwise.

Figure 3.12 - PHG pre-market activity on October 25, 2017.

Figure 3.12 reveals that all of the trading activity in the pre-market for PHG was through only one large transaction of 200,000 shares at $40.96. This large transaction is called a “block trade”. A block trade, also known as a block order, is an order or trade submitted for the sale or purchase of a large quantity of shares being traded at an arranged price between two parties, sometimes outside of the open markets, to lessen the impact on the price of the stock. In general, 10,000 shares of stock and more, not including stocks lower than $10, or $200,000 worth of stocks, are considered a block trade. As you can see, the reason that PHG hit my scanner was because of this block trade, but other than this transaction, there is no activity or interest from traders in trading PHG on that day. PHG did not make my final watchlist because although it did have the minimum volume required in my criteria, the volume and price action were not clean in the pre-market.

I am often asked by new traders how to make a Gappers watchlist if they do not have a Trade Ideas scanner. In that case, you can make use of one of the free scanners available on the Internet such as www.finviz.com. The DAS platform also has a basic scanner built into it for free use by its subscribers, but it does not allow you to filter and define more sophisticated scanners by changing parameters such as ATR or float. If you have the DAS platform, many of the Gappers watchlist stocks will often also hit the Top List window. For example, Figure 3.13 shows my Gappers watchlist on October 25, 2017 next to my Top List window for that day. As you can see, many Gappers watchlist candidates are actually on the Top List as well, as I marked.

Figure 3.13 - Comparison of the Gappers watchlist from my Trade Ideas scanner with my DAS Top List. Stocks marked by → are listed on both the Gappers watchlist (right) and the DAS Top List (left).

In summary, for finding Stocks in Play from your Gappers watchlist:

1. Review the price action of the candidates on both 5-minute and daily charts and look for decent pre-market activity.
2. A good pre-market activity is relative, but a uniform volume on the pre-market and clean price action on the 5-minute chart is important. Having gradual moves to the upside or downside, establishing clear pre-market levels, and respecting VWAP and moving averages are

sufficiently clean price action for me.
3. Shortlist the best candidates.
4. Review the daily charts to find important trading levels (see the next section).

Real Time Intraday Scans

Sometimes you cannot find any good Stocks in Play on your Gappers watchlist. Sometimes many stocks will come into play after the market opens for a variety of reasons including the important and previously discussed breaking news. You often have no way to find those stocks in the pre-market. Therefore, it is important to have intraday scanners that show you active stocks after the market Open at 9:30 a.m.

Some traders have proprietary scanners to find these stocks. Depending upon a trader's strategies, many different parameters can be set and various filters applied to define a scanner. I myself have a few simple scanners that are usually sufficient for me to find Stocks in Play. They are not complicated and follow only a handful of basic fundamental and technical rules. They have worked for me and they produce fairly good results every day. Many trading platforms offer scanners built into their software which you can use. There are also various online websites and vendors that offer both basic real time scanners and also more sophisticated ones.

There are many options to choose from. I personally use Trade Ideas software (www.trade-ideas.com) and I share my scanners with the traders in our community. It is a paid software and requires a monthly or annual subscription. They offer various packages and I recommend, if you are interested in this software, that you check their website.

Figure 3.14 - Overview of my Trade Ideas scanners: 1) New High of the Day, 2) Top and Bottom Reversals, 3) Halt/Resume Circuit Breakers, 4) VWAP Breaking Out, 5) Turbo Breakdown and Turbo Breakup, 6) RSI Extreme.

Figure 3.14 is an overview of the scanners I use daily. In the next sections I will briefly review each one and explain their settings. For more details about each scanner, please check out our website and, if you are a member of our community, you can easily download my settings into your own Trade Ideas software.

New High of the Day

For the Bull Flag Strategy you need to find low float stocks that are moving. These stocks usually move toward extreme highs and make constant new highs of the day. You cannot find these stocks unless you are using a good intraday scanner that finds stocks that are vigorously making new highs of the day. To find these movers, I defined a New High of the Day Scanner in Trade Ideas that alerts me every time a stock that meets my criteria is making a new high of the day.

Figure 3.15 - Example of my New High of the Day Scanner.

Figure 3.15 shows an example of a New High of the Day (HOD) Scanner and Figure 3.16 is a screenshot of the configuration of that scanner on January 9, 2018. This is how I find in real time the low float stocks that are making new highs of the day that meet the following filter criteria:

- Price range: $1 to $10
- The volume today is at least 200,000 shares
- The float is a maximum of 10,000,000 shares
- The volume in the last 5 minutes is between 400% and 2,000% of normal
- The current volume is at least 2 times the normal average volume
- The 15-minute range is at least $0.30

Figure 3.16 – The configuration of my intraday real time New High of the Day Scanner on January 9, 2018.

Top and Bottom Reversal Scanners

Figure 3.17 – My intraday real time Top and Bottom Reversal Scanner.

Top and Bottom Reversal Strategies are two strategies that you cannot find stocks for in the pre-market. You must have an intraday real time scanner. Figure 3.17 is an image of my Top and Bottom Reversal Scanner and Figure 3.18 is an image of the settings I use.

Figure 3.18 – A) My setting for my Top Reversal Scanner, B) My setting for my Bottom Reversal Scanner.

As you can see, I am scanning the market real time to find stocks that are selling off or surging up, so that I can trade my Reversal Strategies. You can read more about these strategies in Chapter 6.

I included a screenshot of how these scans are made, but I won't go into the details here about how to make these scans. I will explain in Chapter 6 under each strategy the specifics of what to look for in stocks in each category. If you develop new strategies for yourself, you can also define new scanners for yourself. These scanners are highly adjustable and you can change the parameters as you like. These are the parameters that work for me, but as you gain experience and learn

more about other strategies and your trading style, you may very well decide to define new scanners for yourself.

Many new traders don't initially need a scanner. If you join a community of day traders such as mine, you will be able to see my scanner in real time. These scanners are costly, around $100 per month, so at the beginning of your career transition to day trading, you will probably want to keep your expenses down as much as possible.

VWAP Breaking Out

Another simple scanner that I defined is the VWAP Breaking Out. This scanner alerts me when a Stock in Play crosses the VWAP with high volume in either an up or down direction. Figure 3.19 shows both the scanner and its configuration.

Figure 3.19 – My VWAP Breaking Out Scanner and its configuration.

As I will explain in Chapter 6, VWAP is the most important day trading indicator and Stocks in Play can be traded based on the VWAP Strategies set out in Chapter 6.

An example of using this scanner is illustrated in Figure 3.20 in a trade I took on March 2, 2018 on JD.com, Inc. (ticker: JD). JD gapped down from a previous day close of $43.81 and was trading at around $42 in the pre-market. At the Open, it pushed higher but bounced at the previous day close of $43.81. As I will explain in Chapter 4, the previous day close is an important support and resistance level.

JD failed to break the previous day close and moved toward a low of the day. It crossed the VWAP with heavy volume and it hit my scanner at 9:37:29 a.m.

Figure 3.20 - Example of trading JD utilizing my VWAP Breaking Out Scanner.

I evaluated the price action and took a 1,000-share short position at $42.80 with a stop loss at $43. The price dropped sharply to a pre-market level of $41.91 and I covered my shorts for a good profit of $1,375.92 in about only 20 minutes, as shown in Figure 3.21, the screenshot of my P&L.

Figure 3.21 – Screenshot of my P&L showing the results of my trade on JD.

Turbo Breakdown and Turbo Breakup

When a Stock in Play makes a new high of the day, it is usually with extremely high relative volume. There are many stocks that make new highs or new lows of the day, but often these moves are not happening with high relative volume.

To filter only the important moves, I defined two simple yet effective scanners. The Turbo Breakdown filter finds Stocks in Play that are moving down to make a new low of the day with unusual 1-minute volume. Similarly, the Turbo Breakup filter finds stocks that are making a new high of the day with unusual 1-minute volume. Figure 3.22 shows the settings for these two scanners.

Figure 3.22 - The configurations of my Turbo Breakdown and Breakup Scanners.

An example of these scanners at work can be seen in Figure 3.23. On March 2, 2018, one day after U.S. President Donald Trump announced a plan to impose global duties on imported aluminum and steel, the European Union announced a retaliation plan by applying 25% tariffs on a list of U.S. products ranging from bourbon to Harley-Davidson motorbikes.

"*We will put tariffs on Harley-Davidson, on bourbon and on blue jeans - Levis,"* European Commission President Jean-Claude Juncker told German television.

No investor in the financial market wants a trade war. As soon as the news came out at 11:47 a.m., Harley-Davidson Inc. (ticker: HOG) started to sell off. HOG was not on my watchlist that day, and it had had no trading activity before that news announcement. However, at 11:48 a.m., it hit my Turbo Breakdown Scanner, with HOG's share price dropping from $44.20 to $43.45.

Figure 3.23 - HOG hits my Turbo Breakdown Scanner on March 2, 2018.

Another example was a trade I did on JD on March 5, 2018 where I took an Opening Range Breakout from VWAP to a profit target of $42.04 which happened to be 200 SMA on my daily chart. As shown in Figure 3.24, 200 SMA on a daily chart is a strong support and resistance level (see Chapter 4 for further information).

Figure 3.24 – Daily chart for JD on March 5, 2018 showing 200 SMA as a strong support and resistance level.

I did not have any stocks listed on my Gappers watchlist on the morning of March 5, 2018, and I was hoping I could find something from my real time scanners. Just after the market Open, JD hit my Turbo Breakdown Scanner with heavy volume and I saw an excellent short opportunity below VWAP to the 200 SMA on a daily chart, as shown in Figure 3.25.

Figure 3.25 - JD hit my scanner on March 5, 2018, even though it was not on my watchlist. I took an Opening Range Breakout from VWAP to a profit target of $42.04.

As shown in Figure 3.26, it was a nice trade with an even nicer profit, thanks to Trade Ideas!

Figure 3.26 – Screenshot of my P&L showing the results of my trade on JD.

Circuit Breaker Halts

Low float stocks can make extreme intraday moves. I have seen low float moves from $1 to over $100 during only one trading day. Although day traders love volatility in the market, this kind of volatility is dangerous for the market and most importantly for investors. Sometimes when breaking news is released, volatility will increase significantly due to the confusion it has caused. To stabilize the market and to protect investors, the exchanges and the authorities may limit the excessive volatility of the price in either direction by temporarily halting trading of the individual stock. The U.S. Securities and Exchange Commission (SEC) has defined a “limit-up” and “limit-down” to determine the thresholds for acceptable trading. Circuit breaker halts are triggered by up or down moves outside of certain bands which are determined based on the price of the stock and its listing condition. The exact threshold varies for different stocks but typically a 15% rise in a company's share price over five minutes can cause a circuit breaker halt.

Usually these halts are for 5 minutes and then trading is resumed. If volatility remains in the price though, the exchange will continue to halt trading in the stock until the price volatility returns back into the acceptable threshold. More often than not, wild moves in a stock’s price will end after two or three halts and resumptions. In the case of breaking news, sometimes the exchange might halt trading until the company issues an official press release and clarifies the news for investors.

As day traders, we are always on the hunt for volatility. Therefore, I

have defined a Circuit Breaker Scanner that alerts me whenever a stock halts due to extreme volatility. For example, on March 2, 2018, Innovate Biopharmaceuticals Inc. (ticker: INNT) moved from $6 to almost $15 during the day. This extreme volatility led to the halting and then resumption of trading several times during the day, as shown in Figure 3.27.

Figure 3.27 - INNT Circuit Breaker Halt/Resume Scanner alert on March 2, 2018.

RSI Extreme

The Relative Strength Index (RSI) is a momentum indicator that compares the amount of gains and losses of a stock over a specified time period (for example 5-minutes or daily) to measure the speed and change of price movements. Daily RSI is often used by swing traders to identify overbought or oversold price ranges, while 5-minute or 15-minute RSI ranges are sometimes used by day traders to find potential reversal opportunities. RSI values range from 0 to 100. Traditionally, RSI values of 70 or above indicate that a stock is becoming overbought or overvalued, and therefore may be prime for a reversal or pull back. On the other hand, an RSI reading of 30 or below can indicate an oversold or undervalued condition that may signal a trend change or corrective price reversal to the upside.

I set my RSI Extreme Scanner in a way that only shows stocks which are entering an extreme range of either above 90 or below 10 within a 5–minute time frame. Figure 3.28 shows the settings for my RSI Extreme Scanner. I am only looking for stocks that have at least 1 million shares being traded in that day, in the range of $10 to $100, with an RSI over a 5-minute time frame in the range of below 10 or above 90.

I have found that almost all of the stocks which hit my RSI Extreme Scanner during the day are Stocks in Play. I may not necessarily trade them all, but they often do provide good trading opportunities.

Figure 3.28 - Configuration of my RSI Extreme Scanner.

Planning the Trade Based on Scanners

The above scanners are only a handful of potential alerts and filters that you can set up with Trade Ideas software or the many other scanner service providers. There are millions of traders out there and no doubt almost every one of them swears by a scan they have defined - and have redefined and tweaked over time! In this book, I introduce the simplest yet effective scans that have worked best for me, my personality and my account size. I've found that they work very well for the traders in our community, as well as for my own personal trading. For example, I decided to stop sharing with our chatroom my VWAP Breakout Scanner, but a few of our traders then emailed me and asked for it. I rarely make any trades based on that scanner, but apparently some of our traders were making "easy" money off of it! Please read the January 17, 2018 email from Trader Nick to me, a screenshot of which appears as Figure 3.29:

"*Good evening Andrew,*

"Thanks for bringing back the VWAP False breakout scanner. I remember back (July 2017) in the day I would always trade off that scanner from 9:45 to 10:20 and be done for the day with easily 1k profits. I'm sure many traders are new here and haven't experience[d] this great scanner. Is there any way you could add a line or two of the false breakout scanner to your screen[?] I'm sure many people will benefit from this scanner. Also, see you in chat tomorrow.

"Thanks for everything."

Figure 3.29 - Nick's email requesting the return of the VWAP Breakout Scanner.

My preference for trading is to carefully monitor the Stocks in Play that I shortlist on my Gappers watchlist. Because these stocks are selected before the market Open, I have sufficient time to review their charts, daily levels and observe their price action before the market Open. At the Open, I constantly monitor their charts and try to plan a trade based on the strategies detailed in Chapter 6. I usually select three to five Stocks in Play and watch them separately on my four monitors. When I see a potential strategy, I plan and execute my trade.

Stocks that hit my real time scanners, on the other hand, are more unknown to me, and I need more time to process their situation before making a trade, which makes it more difficult to trade based on real time scanners. Day trading is a very fast decision-making process.

Sometimes you can plan a trade in a few minutes and at other times you have to make a decision in just a few seconds. This is why you need months of training in simulator accounts to well understand the decision-making process.

If you require a reminder of the importance of patience in trading, here it is. There are plenty of traders out there who are making the error of overtrading. Overtrading can mean trading twenty, thirty, forty, or even sixty times a day. You'll be commissioning your broker to do each and every one of those trades, so you are going to lose both money and commissions. Many brokers charge $4.95 for each trade, so for forty trades, you will end up paying $200 per day to your broker. That is a lot. If you overtrade, your broker will become richer, and you will become, well, broker! Remember, your goal is to trade well, not to trade often.

Another problem with overtrading is risk. While you're in a trade you are exposed to risk, and that's a place you don't want to be in unless you have proven that there is a setup in the strategy worth trading.

The stock market is controlled by machines and highly sophisticated algorithms and, as a result, there is considerable high frequency trading. High frequency trading creates significant noise in the price action and is specifically designed to shake out retail traders like you and me. You must be smart. Don't expose yourself to them. Profitable traders usually make only two or three trades each day. They then cash out and enjoy the rest of their day.

Whenever a stock hits my scanners, I then check it in my trading platform and decide, based on my strategies set out in Chapter 6, if I want to trade it or not. Remember, just because a stock hits my scanners does not mean I blindly trade it. A scanner alert gets my attention, but I don't necessarily make a trade. Like a guerrilla trader hiding in the jungle, I watch the stock and look for a trading opportunity. I have yet to define a scanner that gives me a 100% tradeable alert, and I don't think such a scanner really exists, at least for us retail traders. As an aside, just in case you have not come across the term before, guerrilla trading is like guerrilla warfare, you wait for an opportunity to move in and out of the financial battlefield in a short period of time to generate quick profits while keeping your risk to a minimum.

An example of this process can be seen in a trade that I made on December 27, 2017. Lightbridge Corporation (ticker: LTBR), a low float stock of only 10 million shares, hit my scanner right at the Open at 9:30:21 a.m., as shown in Figure 3.30. LTBR was not previously on my Gappers watchlist nor Top List and I had no plan to trade it before

the market Open. When it hit my scanner right at 9:30:21 a.m., I quickly checked the chart, volume and price action and realized it might provide a trading opportunity. I quickly looked at its daily chart and found a $1.70 level. However, I waited until I could find an excellent entry. Figure 3.31 illustrates this process and you will see where I marked my trade on LTBR. Figure 3.32 is a screenshot of my profit and loss (P&L) for this day of trading.

Figure 3.30 – LTBR hits my scanner 21 seconds after market Open.

Figure 3.31 - Process of a trade on LTBR after it hit my scanner.

You'll notice that my evaluation period was almost 20 minutes. I was patiently watching LTBR and looking for a good entry. Day trading can be a boring profession – most of the time you are just sitting and watching your monitors. In fact, if day trading is not boring for you, then you are probably overtrading.

Figure 3.32 - My P&L showing the results of my trade on LTBR.

Chapter 4:
Support and Resistance Levels

Introduction

For successful trading, you need to be able to identify meaningful and important support and resistance levels for your Stock in Play so you can trade off of them. There are many ways to find these levels and there are many types of support and resistance.

I've found over the years that many traders love to draw diagonal trend lines. They're the most common type of price levels that traders will identify and draw. But I personally believe the market doesn't know diagonal price levels. In my opinion, diagonal trend lines are subjective and very self-deceptive. You can draw a trend line virtually anywhere and in virtually any way. For example, if you're in a mood to buy, you can draw your trend line in a way that shows a steep upward movement, while another trader might look at the same chart and draw another trend line with a different slope. If you feel like shorting, you'll eventually "recognize" and draw a downward trend line for yourself.

I am personally skeptical of trend lines but I know that they are very common among traders. In my opinion most of the trend lines come with some degree of wishful thinking as traders will find themselves identifying bullish or bearish trends depending on whether they're in a mood to buy or sell.

If you are in the mood to go long, you can draw a line like I did in Figure 4.1 (A). If you are in the mood to short sell, you can draw a line like I did in Figure 4.1 (B) and go short. Do note that Figure 4.1 (A) and (B) are the exact same daily chart but with two quite different diagonal trend lines.

Figure 4.1 - KR daily chart for the summer of 2016. A trend line on the same chart can be drawn whichever way a trader wishes.

For my charts, horizontal support and resistance levels are the only levels I rely on. This is because the market only remembers price levels, which is why horizontal support and resistance lines on previous price levels make sense, but diagonal trend lines don't. In fact, in my opinion, trend lines are among the most deceptive of all tools in trading. I therefore avoid trend lines.

Many traders may disagree with me here, and they will emphasize the importance of trend lines, triangles, Rising and Falling Wedge Patterns and channels. I must emphasize that what I've written about in this book is my style of trading, and while it works very well for me, it might not work for everyone. There is no wrong or right way to trade, and it is important that each trader find their own style of trading. More than anything else, day trading is perhaps most similar to being a professional athlete. Professional athletes each have their own training schedule and process, and no two athletes train in exactly the same fashion.

One professional coach might implement a certain training regimen, while the coach of another team might utilize a completely different system. Both may be correct and produce good results depending on the performance of the athletes on the day of competition. Similarly, you can learn many trading styles, and they all can be right, but the overall results of your trading depend on your daily execution of what you have learned.

What are Support and Resistance Levels?

A *support* is a price level where buyers entered the trade or short sellers covered their shorts with enough force to keep prices from going any lower.

A *resistance* is a price level where sellers entered the market or old buyers dumped their shares with enough force to keep prices from going any higher.

Support and resistance levels are very important reference points because so many traders recognize them and believe in their significance. It's herd mentality 101. If enough traders believe in the significance of a support level, traders will not buy until the price reaches that support level. In addition, short sellers won't cover until that level. Why would they, when they can buy or cover at lower prices?

Similarly, if all traders know there is a resistance level nearby, they will start selling at that level because they are afraid the price might bounce back before they can sell for a profit. Short sellers will also start selling at the resistance level in the hope of a price drop.

It is at these levels that the balance of power between the buyers and the sellers will usually shift. For example, if the buyers are aggressively bidding up and causing prices to rise, and all of a sudden many traders are willing to aggressively sell for less than the last price, thereby causing an immediate price reversal, the price level at which the market stopped is now a resistance level. It really doesn't matter why the balance of power shifted from the buyers to the sellers. There could be all sorts of reasons behind what caused the price to reverse. What is really important is that traders will remember that the market reversed at that particular price level. As a result, moving forward, that price will have a degree of significance in the minds of traders.

If the market reversed very strongly the last time that prices approached this level, there will be many traders who will think it will probably reverse again and they may very well act based on this belief.

In this book, I will teach you how to identify support and resistance on candlestick charts. Once support and resistance are established and identified, they can be very helpful for your trading plan during the market hours.

You may have heard that old support becomes resistance and old resistance becomes support. This market insight is valid, but do

remember that when you identify a level on your chart, depending upon which direction the price is approaching it, it can act as either a support or resistance.

Finding Support and Resistance Levels

There are two ways to find trading levels. The first category is comprised of the preexisting and predetermined levels that will often be plotted automatically by trading platforms. There is no judgment involved in finding those patterns. The second category is comprised of the discretionary levels that traders need to find themselves.

Important predetermined levels are:

- Previous day close
- Yesterday's low and high
- Two days ago low and high
- All-time high and all-time low
- 52-week high and 52-week low

Examples of discretionary levels are:

- Extreme price levels on a daily chart
- Moving averages on daily and 5-minute charts
- Important pre-market levels

In the following sections, I will go into the details of how to find each of these levels.

Previous Day Close

The most important support and resistance level is the previous day close, or PCL, which can be automatically plotted by trading platforms such as DAS.

The closing stock price is significant for several reasons. The PCL is the price that the market makers and institutional traders agree on before the trading day ends. Often many "block trades" happen at the PCL price. As I mentioned earlier, a block trade is a trade of a significantly large number of shares at an arranged price between two parties, frequently outside of the open markets, to lessen the impact on the stock's price.

Investors, traders, financial institutions, regulators and market makers use the PCL as a reference point to evaluate a stock's performance over a specific period of time such as one year or one week. In fact, investors and other stakeholders base their decisions on closing stock prices. For example, institutional investors will monitor a stock's closing price in order to make decisions regarding their investment portfolios.

Figure 4.2 - Daily chart for JUNO showing the importance of the previous day close (August 25 vs. August 28, 2017).

To demonstrate the importance of the previous day close, let's take a look at Figure 4.2, a daily chart of JUNO during the summer of 2017. On August 25, JUNO closed at $30.75/share. The next day, the stock gapped up over 15%. To see the importance of the PCL price of $30.75, look back a few weeks and notice the big bounces from that price level on August 7 and July 26. This amazing bounce is not a coincidence. Market makers and other major players were not willing to pay higher than $30.75 before JUNO reported its earnings. The next day, JUNO gapped up with a good earnings report and, naturally, it was a Stock in Play for us in the chatroom!

Figure 4.3, the 5-minute chart for Mallinckrodt Public Limited Company (ticker: MNK), is another good example of why PCL is an extremely important level for the next trading day. MNK was a Stock in Play on January 19, 2017. After a weak Open, the price held below VWAP. I went short, but there was no nearby support and resistance level except the previous day close at $46.52 (the dashed line on my chart). Therefore, I decided to go short from VWAP at around $47.80 for the profit target of the previous day close at $46.52, a nice $1.20 per share profit.

Figure 4.3 - 5-minute chart for MNK showing the importance of the previous day close (January 18 vs. January 19, 2017).

For another example, let's take a look at Figure 4.4, the 5-minute chart for Barracuda Networks, Inc. (ticker: CUDA) on January 10, 2017. The same price action can be seen at the Open. CUDA gapped up in the pre-market because of a good earnings report. At the Open, it was sold off heavily, perhaps because overnight shareholders and long-term investors started to sell their shares for a profit. The stock tested the VWAP for about twenty minutes and then sold off in a high volume toward the previous day close of $23.81. Its price bounced back later, during Mid-day, toward the VWAP, after it could not break the previous day close. Later, in the early afternoon, the price sold off again toward the previous day close before it bounced back yet again.

In this example too, the previous day close level of $23.81 acted as a strong support level. In both morning and afternoon trading, a short sell opportunity was possible from VWAP at around $24.40 to $23.81. I did not take this trade though as I was trading another stock around the same time.

Figure 4.4 - 5-minute chart for CUDA for January 10, 2017 demonstrating the importance of the previous day close as a support level.

PriceMarker: Y Low/High and YY Low/High

Similar to PCL, yesterday's and the day before yesterday's low and high are often important intraday levels for the next trading days. I use a tool called PriceMarker, which is referred to as a Study in my DAS platform, to automatically put four levels on my chart for any stock that I am watching.

Yesterday's Low	
Yesterday's High	
Two days ago Low	
Two days ago High	

For every ticker that I click, I will then automatically have five support and resistance levels plotted on my chart: previous day close plus yesterday's high, yesterday's low, two days ago high and two days ago low. These are very, very important to support and resistance. Figure 4.5 is a screenshot of the PriceMarker Studies window and Figure 4.6 is an example of a chart with these various levels automatically plotted by PriceMarker.

Figure 4.5 – PriceMarker Studies window in my DAS platform.

Figure 4.6 - 5-minute chart for VRX demonstrating how PriceMarker automatically plots various support and resistance levels on a chart.

Now let's take a look at VRX for July 10, 2017. As you can see in Figure 4.6, I had two levels on my chart automatically drawn from PriceMarker. You will note that the price level of $16.56, which was YY Low, did act as a strong resistance level during the morning and Late-Morning sessions. The stock bounced from that level many times before heading above VWAP. In the afternoon trading session, VRX never was able to break above the Y High of $16.76.

Another example is Snap Inc., the developer of Snapchat (ticker: SNAP) on February 20, 2018, as set out in Figure 4.7 below. SNAP gapped down over 5% in the pre-market and was trading near $19. In the morning session, at around 10 a.m., it recovered some of the losses and closed strongly above VWAP. I went long at $19.40 with the profit target of $19.75, which was yesterday's low. I sold before it reached my target. After around 30 minutes, when it had finished an ABCD Pattern consolidation, I went long again at $19.60 and sold at $19.73. I kept the last portion of the position with the hope of breaking $19.75, but I impatiently sold the rest at $19.66 at around

11:45 a.m.

Figure 4.7 - Example of a trade on SNAP based on yesterday's low.

Another example is shown in Figure 4.8, where I was trading United States Steel Corporation (ticker: X) on February 26, 2018. The previous day levels (on February 23 and 22) are shown in the top half of the figure. As you can see, by referring to the previous day, I mean the previous trading day and not the previous calendar day. There was of course no trading on the weekend of February 24 and 25, 2018. The stock opened at around $45.25 and I shorted it at the Open with the profit target of around $44, which was Y and YY high.

Figure 4.8 - Example of a trade on X based on the previous day's levels.

The beauty of the five above-mentioned support and resistance levels - 1) previous day close or PCL, 2) Y Low, 3) Y High, 4) YY High, 5) YY Low - are that those levels are automatically drawn by your trading platform, and you do not need to look for any of them. They will always be marked on the chart for any stock I choose to look at.

However, as mentioned at the beginning of this section, there are additional levels that traders need to find manually, and developing that skill requires practice.

Pre-Market Levels

As explained in Chapter 3, Stocks in Play often have clean pre-market activity, and that is one of my important criteria for shortlisting the Gappers for my final watchlist. These are active stocks and you can find patterns in their pre-market activity. Two powerful levels for day traders are the high and the low of the pre-market activity. Often these two levels are important trading levels during the market trading hours as well. Let's review some examples:

Figure 4.9 - Example of pre-market levels impacting trading in AVEO.

As you will see in Figure 4.9, on July 10, 2017, AVEO gapped up. The high of the pre-market was around $3.20 and the low of the pre-market was around $2.90. You can see in this figure that at 9:30 a.m., when the market opened, AVEO went to $3.20, and then sold off to $2.90, and then bounced back again toward the high of the pre-market which is now the high of the day.

Another example is NVDA for July 10, 2017. As you can see in Figure 4.10, during the pre-market NVDA gapped up more than 3% and traded in a narrow range between $148.83 and $149.89. The stock pushed higher at the Open, and then sold off toward the low of the pre-market, which held as an excellent support. The stock later moved higher and tested $149.89 as a potential resistance.

Figure 4.10 - Example of pre-market levels impacting trading in NVDA.

You may correctly ask, how can I trade based on these levels? At this moment, do not even think about making a trade, just focus first on how to find these various levels, and secondly on understanding how the price of a stock respects these levels. I will discuss trading strategies later in the book but, before making any trade, you need to be able to accurately find these levels.

Moving Averages

Moving averages on higher time frames such as daily charts and 5-minute charts are important support and resistance levels, especially the larger moving averages such as 50 SMA and 200 SMA. When the price reaches these levels it often bounces. You can expect significant activity around these moving averages.

For example, let's take a look at Figure 4.11, AAOI's daily chart for October/November 2016. As marked, these bounces are excellent.

Figure 4.11 - AAOI daily chart for October/November 2016 showing moving averages acting as support and resistance levels.

Another example is Figure 4.12, GLPG in August 2017. This stock gapped up more than 14% in the pre-market on August 10 and opened at $83 but sold off later during the day close to its 50 SMA at around $78. In my analysis during the pre-market, I marked the area near $78 as a support and resistance level, as shown on the chart.

Figure 4.12 - GLPG daily chart showing how 50 SMA acted as a support and resistance level.

Figure 4.13 - JD daily chart.

Another example is JD in August 2017. On Friday, August 11, 2017 JD closed at $45.80. On Monday, August 14, the stock gapped down to $44 and it was obvious that it would be in play. I quickly looked at the daily chart, Figure 4.13, and found that 50 SMA was ~$42.17. As you will see in Figure 4.14, I marked it on my chart (dashed line) and

then went to see how the stock was being traded in the pre-market.

Figure 4.14 - Analysis of JD pre-market activity.

As you can see, JD sold off to around $42.17 and bounced back from that, even in the pre-market activity!

Another example is IONS on October 24, 2017. As you can see in Figure 4.15, the stock gapped down from a close of $62.50 on October 23, 2017 to around $56.25 in the pre-market of October 24. The stock on the daily chart was very close to its 50 SMA and, as you will note, during the trading day of October 24 it bounced back from both 20 EMA and 50 SMA.

Figure 4.15 - Daily charts for IONS demonstrating moving averages acting as a support and resistance.

I took an Opening Range Breakout short below VWAP with the profit target of $54.21. I covered my position on the way down toward $54.21 for a good profit of $474. As you can see in Figure 4.16, the stock bounced back from that level!

Figure 4.16 - Summary of the trade I took on IONS on October 24, 2017.

Many examples can be found on daily charts to show how moving averages can act as powerful support and resistance levels. Below, for example, in Figure 4.17, you can see where I marked the price as bouncing up from 200 SMA on the daily chart of GTN for November and December 2017.

Figure 4.17 - GTN daily chart demonstrating how moving averages can act as support and resistance levels.

Another example can be seen in the trading of LITE on December 13, 2017 when its stock gapped down with huge trading volume but with 9 EMA acting as a resistance. In the next few days, 20 EMA also acted as a higher resistance level (all marked by arrows in Figure 4.18).

Figure 4.18 - LITE daily chart demonstrating moving averages acting as a resistance level.

In addition to daily charts, moving averages on intraday charts such as 5-minute and 1-minute can also act as potential support and resistance. For example, let's look at Figure 4.19, the intraday chart of FOLD on October 4, 2017. As you can see, FOLD sold off at the Open and after a consolidation I went short at 9:40 a.m. with the profit

target of moving average. I covered my position on the 200 SMA. I made $594 from that trade with 2,000 shares.

Figure 4.19 - FOLD 5-minute chart describing the trade I took on October 4, 2017 using moving averages as a support and resistance.

Even on 1-minute charts you can see that moving averages can act as potential support and resistance. For example, on November 2, 2017, JUNO bounced back from 200 SMA on a 1-minute chart. I took that trade short again and covered in a few steps toward the moving average, as shown below in Figure 4.20:

Figure 4.20 - JUNO 1-minute chart showing the trade I took on November 2, 2017 using moving averages as a support and resistance.

Please note that as a rule of thumb, the higher the time frame and the higher the moving averages are, the stronger the support and resistance levels will be. A 200 SMA on a daily chart is perhaps the strongest support and resistance level. Moving averages on 1-minute charts on the other hand tend to be less strong.

Daily chart > > 5-minute chart > > 1-minute chart

200 SMA > > 50 SMA > > 20 EMA > > 9 EMA

Reversals and Extremes on Daily Charts

Reversal points on daily charts are important levels of support and resistance. As mentioned previously, before the market opens, I go back to the daily charts and find price levels that have been shown in the past to be critical. Often on a daily chart you can see significant price reversals for multiple days in those areas. A large wick to the upside or downside on a daily chart will immediately catch my attention (please see Figure 4.22 where I have marked with an arrow an example from January 5, 2017 for Michael Kors Holdings Ltd. (ticker: KORS)). I usually try to identify that level with a line that touches the maximum number of reversals or wicks. The more of a line that is touching extreme price lines, the more that the line is a better support and resistance and has more value. Sometimes it is not clear which line is the optimum line, and in those situations all you can do is just draw the best that you can.

The price must have a clear bounce from that level. If you are not certain if the price has bounced in that level, then it is probably not a support and resistance level. Important support and resistance levels

on daily charts stand out. They shout at you: "*grab me by the face*".

For day trading, it is better to draw support and resistance lines across the extreme prices or wicks on daily levels rather than across areas where the bulk of the bars stopped. This is the complete opposite of swing trading. For swing trading, you need to draw support and resistance lines across the edges of congested areas where the bulk of the bars stopped rather than across the extreme prices. Swing traders often ignore those wicks on daily charts. This is because the close price is more important for swing trading than the extreme wicks in daily bars are. The close price of a stock on a daily chart is the price that the market makers and professional traders have agreed on. Previous extreme high and low wicks have been made by day traders, so you should look at those. To better illustrate these above points, let's take a look at Figure 4.21, a daily chart for SCTY without support and resistance lines and another daily chart which includes those lines.

Figure 4.21 - Example of SCTY daily chart firstly without and then with support and resistance lines plotted.

You will see that I marked areas that the price bounced back on the daily chart.

Another example is shown in Figure 4.22 where two levels are noted, and I marked the areas that caught my attention in order to draw those specific levels. Please note that there are more levels that can be plotted on this chart, I just highlighted these two levels as an example.

Figure 4.22 - KORS daily chart showing support and resistance lines.

Support and resistance lines on daily charts are not always easy to find, and at times you will not be able to draw anything clear. If I cannot see anything clear, I don't have to draw anything. There is a good chance that other traders will also not see those lines clearly and therefore there is no point in forcing myself to draw support and resistance lines. In that case, I will plan my trades based on the VWAP or moving averages or other levels that I earlier discussed.

One important hint for drawing support and resistance lines on daily charts is that you should always look at the most recent and relevant data closest to the pre-market price activity. If the price of the stock is at $20 in the pre-market, there is no point in finding support and resistance lines in the region when it was being traded at $40. It is unlikely that the stock will move and reach that area. Go back in time to find the most recent data where prices were close to your current

day trading range. Sometimes you need to go back a few weeks, and sometimes you may need to go back several years to find any nearby levels.

To illustrate this point, let's take a look at Figure 4.23, the daily chart of HD.

Figure 4.23 - HD has gapped down, let's find the levels.

On July 20, 2017, Home Depot Inc. (ticker: HD) gapped down in the pre-market and was being traded at around $147. There is no level nearby, except a 200 SMA on the daily chart at around $142. To find more relevant levels, I had to go back in time and find the price action in April 2017. I zoomed in on that area and found relevant levels as marked in Figure 4.24. I pointed arrows at those areas that captured my attention when looking for these levels.

Figure 4.24 - Going back in time to find relevant support and resistance levels for HD.

Now let's see how HD actually traded on July 20, 2017. Figure 4.25 shows its intraday activity. As you can see, HD sold off heavily at the Open and broke most of the levels I had marked. It did have a quick bounce from $148.33 back to VWAP at the Open (shown with an arrow), but the selling pressure was so strong that it could not hold and eventually broke that level before 10 a.m. Eventually, HD nicely held the $145.90 level that I had earlier determined (see Figure 4.24, the daily chart for March and April 2017).

Figure 4.25 - HD intraday chart on July 20, 2017.

I tried to draw the best lines possible, although another trader might look at the same points and draw their lines slightly differently. That is why it is important to always remember that support and resistance lines are actually an "area" and not exact numbers. For example, when you find an area around $145.90 as a support line, you must expect price action movement around that number but not at exactly $145.90. Depending on the price of the stock, an area of 5 to 10 cents is safe to assume. In the example above, the real support area might range from $146 to $145.85 – ish!

Another example of extreme price bounces can be seen in Figure 4.26, the daily chart for KORS for December 2016 and January 2017. Again, I marked those levels that I found, and I pointed arrows at areas that captured my attention in order to draw those lines.

Figure 4.26 - KORS daily levels marked by me, with arrows indicating areas that caught my attention and assisted me in plotting these daily levels.

Price levels at all-time highs, all-time lows, 52-week highs, and 52-week lows are extremely important. For example, let's review Zogenix, Inc. (ticker: ZGNX) on October 2, 2017. As you can see in Figure 4.27, ZGNX gapped up over 4% in the pre-market and was being traded at around $36.50. Just a day before, it had a huge run from $15 to $35. Reviewing its daily chart, I found that there was no level nearby until I found the all-time high price level of $41.47 back in 2014, as also shown in Figure 4.27. I used a weekly chart for this book only because I could not properly insert a daily chart for illustrative purposes, it would have been unreadable, but if you were looking at its daily chart, you would still find that $41.47 level.

Figure 4.27 - ZGNX has appeared on my Gappers watchlist for October 2, 2017. I had to go back to 2014 to find the all-time high of $41.47, as shown on this ZGNX weekly chart.

When the market opened on October 2, 2017, ZGNX moved up at the Open toward the $41.47 level which, not surprisingly, acted as a resistance. For about 20 minutes, at around 11 a.m., ZGNX tried to break that level, but it could not, and it then slowly sold off back to VWAP and closed near the VWAP, as shown in Figure 4.28.

Figure 4.28 - 5-minute chart for ZGNX for October 2, 2017 showing that the all-time high level of $41.47 (from back in 2014) acted as a strong resistance (in 2017).

52-week highs and 52-week lows are additional important levels that retail and institutional traders look at. For example, let's review United States Steel Corporation (ticker: X) on March 1, 2018. The stock gapped up from its previous day close on February 28, 2018 and I was long biased on it for a move forward toward its 52-week high. As you can see in Figure 4.29, the stock was being traded near its 52-week high, and I was hoping I could take that trade for the break of that level.

Figure 4.29 - Daily chart of X showing its 52-week high from less than two weeks earlier.

As soon as the market opened, X sold off below VWAP, but then bounced back from 50 SMA. As soon as it came above VWAP, I went long and sold toward $46.30 (high of the day at that time) and $46.86

(the 52-week high) for a $490 profit with 1,600 shares. As you can see in Figure 4.30, X sold off heavily at its 52-week high of $46.86. This level proved to be a very strong resistance.

Figure 4.30 - X showing activity near its 52-week high of $46.86.

To summarize what I have discussed so far:

1. Previous day close is one of the most important levels on your charts.
2. Previous day's high and low (usually Y and YY: yesterday and the day before) are important and some platforms will automatically draw these lines for you. In DAS, the PriceMarker Study will do that for you.
3. Clear pre-market levels (low and high) can often be important intraday levels.
4. Moving averages on both daily charts and intraday charts are also often important levels. The higher the moving average is, the stronger the level (for example, 200 SMA is a much more powerful level than 9 EMA). In addition, the higher the time frame the moving average is in, the stronger the level it is. For example, a 20 EMA moving average on a 5-minute chart is much stronger than 20 EMA on a 1-minute chart.
5. Extreme price levels on daily charts that the price has bounced back from are important levels. The kangaroo tails (large wicks to the upside or downside) are extremely important levels.
6. Always look at the most recent data to find levels, and try to find levels near the pre-market price. There is no point in finding levels that would be unlikely to be in the price action range for that day.
7. All-time highs, all-time lows, 52-week highs, and 52-week lows are also important levels that should be marked in the pre-market screening.

Placing support and resistance lines, although tricky, is actually quite simple once you get the hang of it. It does take practice though. Please feel free to watch me every morning in our chatroom when I find the support and resistance levels for my Stocks in Play.

Chapter 5:
Price Action, Candlesticks and Trade Management

A successful trader needs to learn how to extract information from price movements by monitoring what is happening in real time during the trading day and by studying past data. Therefore, this section reviews *price action* and the fundamentals of candlestick charts. Some parts of this section may be repetitive from my first book, but I have included more in-depth technical discussions regarding chart patterns and trade management.

It is known that in the 17th century the Japanese began using technical analysis and some early versions of candlesticks to trade rice. Much of the credit goes to a legendary rice trader named Homma from the town of Sakata, Japan. While these early versions of technical analysis and candlestick charts were different from today's version, many of the guiding principles are actually very similar. Candlestick charting, as we know it today, first appeared sometime after 1850. It is likely that Homma's original ideas were modified and refined over many years of trading, eventually resulting in the system of candlestick charting that we now use. Besides candlestick charting, there are other styles for representing price action including bars, lines, and point and figure. I personally, however, consider candlestick charts more visually appealing and easier to interpret.

In order to create a candlestick chart, you must have a data set that contains the (1) opening price, (2) highest price in the chosen time frame, (3) lowest price in that period, and (4) closing price values for each time period you want to display.

The time frame can be daily, 1-hour, 5-minute, 1-minute, or any other period you prefer. The hollow (white) or filled (red) portion of the candlestick is called "*the body*". The long thin lines above and below the body represent the high/low range and are called "*shadows*" (also referred to as "*wicks*" and "*tails*"). The high is marked by the top of the upper shadow and the low by the bottom of the lower shadow. Two examples follow in Figure 5.1. If the stock closes higher than its opening price, a hollow candlestick is drawn with the bottom of the body representing the opening price and the top of the body representing the closing price. If the stock closes lower than its opening price, a filled (usually red) candlestick is drawn with the top of the body representing the opening price and the bottom of the body representing the closing price.

Figure 5.1 - Candlestick examples.

Each candlestick provides an easy-to-decipher picture of the price action. A trader can immediately compare the relationship between the open and close as well as the high and low. The relationship between the open and close is considered vital information and forms the essence of candlesticks.

Hollow candlesticks, where the close is greater than the open, indicate buying pressure. Filled candlesticks, where the close is less than the open, indicate selling pressure.

Price Action and Mass Psychology

At every moment in the market, there are three types of traders: the buyers, the sellers, and the undecided. Buyers obviously want to pay as little as possible, while sellers want to sell for the highest price possible. This conflict manifests itself in bid-ask spreads (Chapter 2). "Ask" or "offer" is what a seller asks as a sale price for their stock. "Bid" is what a buyer is willing to pay for that position. Actual prices of transactions are the result of the actions of the traders at a particular point in time: buyers, sellers, and the undecided.

Buyers (bulls) and sellers (bears) are under pressure by undecided traders waiting in the background, who could suddenly appear and make the deals the others are considering. If buyers wait too long to decide on a transaction, someone else could beat them to it and drive up the price. Sellers who wait too long for a higher price might be thwarted by other traders who sell at lower asks and drive down the price. The presence of undecided traders puts pressure on buyers and sellers to deal with each other.

Buyers are buying because they expect that prices will go up. Buying by bulls pushes the market up, or as I like to phrase it, "Buyers are in control." I call them "aggressive buyers". The result is that buyers are willing to pay higher and higher prices and to bid on top of each other. They realize that they will end up paying higher prices if they don't act now. Undecided traders accelerate price increases by creating a feeling of urgency among buyers, who then buy quickly and cause prices to go higher.

Sellers are selling because they expect that prices will go down. Selling by bears pushes the price down, or as I like to express it, "Sellers are in control." I call them "aggressive sellers". The result is that sellers are willing to accept lower and lower prices. They are afraid that they may not be able to sell any higher and may have to end up selling at even lower prices if they miss selling now. Undecided traders make prices decrease faster by creating a sense of urgency among the sellers. They rush to sell and push the prices lower.

The goal of a successful day trader is to figure out if the sellers will end up in control or if the buyers will end up in control, and then make a calculated bet, at the appropriate time, quickly and tactically on the winning group. This is the practical application of guerrilla warfare. Your job is to analyze the balance of power between buyers and sellers and bet on the winning group. Fortunately, candlestick charts reflect this fight and mass psychology in action. A successful

day trader is a social psychologist behind a computer and charting software. Trading is the study of mass psychology.

Candlesticks will tell you a great deal about the general trend of a stock and the power of buyers or sellers in the market. Candles are always born neutral. After birth, they can grow to become either bearish, bullish or, on rare occasions, neither. When a candle is born, traders do not know what it will become. They may speculate but they do not truly know what a candle is until it dies (closes). After a candle is born, the battle begins. The bulls and the bears fight it out, and the candle displays who is winning. If buyers are in control, you will see the candle move up and form a bullish candle. If sellers are in control of the price, you will see the candle move down and become a bearish candle. You may be thinking that this is all very obvious, but many traders don't see candles as a fight between buyers and sellers. That little candle is an excellent indicator that tells you who is currently winning the battle, the bulls (buyers) or the bears (sellers).

Bullish and Bearish Candlesticks

Candles with large bodies toward the upside, as you will see on the left-hand side of Figure 5.1 above, are very bullish. It means that the buyers are in control of the price action, and it is likely that they'll keep pushing the price higher. The candle not only tells you the price, it tells you that the bulls are winning and that they have power.

Bearish candles, on the other hand, are any candles that show a bearish body. So what does the bearish candle tell you? It tells you that the sellers are in control of the price action in the market and that buying, or a "long" position, would not be a great idea.

Filled candles that have a big filled body, such as on the right-hand side of Figure 5.1 above, mean that the open was at a high and the close was at a low. This is a good indicator of a bearishness in the market. If you want to go long, you definitely don't want to go long after seeing a series of big bearish candlesticks. You don't want to stand in the way of bears. If the price gets really extended and the candlesticks become smaller and smaller, then it might be time to take a reversal if you want to go long.

Just by learning to read candlesticks, you will begin to generate an opinion on the general attitude for a stock. Again, this is called the "*price action*". Understanding who is in control of the price is an extremely important skill in day trading. As I mentioned, a successful trader is a social psychologist armed with a computer and trading software. Day trading is the study of mass psychology during the day.

Your job as a successful day trader is to figure out if the sellers will end up in control, or if the buyers will end up in control, and then bet on the winning group. If bulls are much stronger, you should buy and hold. If bears are much stronger, you should sell and sell short. If both camps are about equal in strength, wise traders stand aside. They let the bulls and the bears fight with each other and then enter trades only when they are reasonably certain which side is likely to win. You never want to be on the wrong side of the trade. It is important therefore to learn how to read candlesticks and how to constantly interpret the price action while you are trading.

Indecision Candlesticks

Dojis: Simple, Shooting Star, Hammer

Dojis are an important candlestick pattern and come in different shapes and forms, but are all characterized by having either no body or a very small body. Figure 5.2 below provides some examples of Dojis. Dojis are often called *indecision candles*. In these candlesticks, the powers of the buyers and the sellers are almost equal. Although no one is in control of the price, the fight continues on. Usually, the volume is lower in these candlesticks as traders are waiting to see who wins the fight between the sellers and the buyers. Trends in price can change immediately after indecision candles and they therefore are important to recognize in the price action.

Figure 5.2 - Buying and selling pressure definition on Dojis.

Simple Dojis are candles that have similarly-sized high wicks and low wicks. At other times, Dojis will have unequal top and bottom wicks. If the top wick is longer, it means that the buyers tried unsuccessfully to push the price higher. These types of Dojis, such as the shooting star, are still indecision candlesticks, but they may indicate that the buyers are losing power and that the sellers may take over.

If the bottom wick is longer, as in hammer Dojis, it means that the sellers were unsuccessful in trying to push the price lower. This may indicate an impending takeover of price action by the bulls.

Figure 5.3 – Bottom and Top Reversal Strategies with an indecision candlestick formed as a sign of entry.

All Dojis indicate *indecision* and possible reversals if they form in a trend. If a Doji forms in a bullish trend, it suggests that the bulls have become exhausted and the bears are fighting back to take control of the price. Similarly, if a Doji forms in a bearish downward trend, it suggests that the bears have become exhausted and the bulls (buyers) are fighting back to take control of the price. You will see examples of these in Figure 5.3.

After learning to recognize these candlesticks, it is important that you do not get too excited too quickly. Candles are not perfect. If you take a trade every time you see a Doji formed in a trend, you will end up with significant losses. Always remember that these candles only indicate indecision and not a definite reversal. To use indecision candles effectively, you must look for confirmation candles and ideally

use them with other forms of analysis such as support and resistance levels, both of which are explained in Chapter 4.

Candlestick Patterns

Many traders love to identify complicated chart patterns and make trading decisions based on them. There are hundreds of imaginatively-named candlestick patterns that you will find with a Google search including Head-and-Shoulders, Cup-and-Handle, Abandoned Baby, Dark Cloud Cover, Downside Tasuki Gap, Dragonfly, Morning Star, Evening Star, Falling Three Methods, Harami, Stick Sandwich, Three Black Crows, Three White Soldiers, and many more. Believe me, I did not make any of these names up. These candlestick patterns are really out there. As intriguing as their names might be, many of them, in my opinion, are useless and confusing. They're exceptionally arbitrary and fanciful.

The biggest problem with fancy chart patterns is wishful thinking. You can find yourself identifying bullish or bearish patterns depending on whether you are in a mood to buy or sell. If you're in a mood to buy, you will find a bullish pattern, eventually, somewhere. If you feel like selling short, you'll "recognize" a bearish pattern like Head-and-Shoulders, somewhere. I am skeptical of even the most famous patterns such as the above mentioned Cup-and-Handle and Head-and-Shoulders Patterns.

An example of this sort of subjective and wishful thinking is depicted in Figure 5.4. Figure 5.4 is the exact same daily chart but with two quite different diagonal trend lines. Two traders can look at one chart and draw different trend lines, depending on their mood. None of those patterns are objective in my opinion. Just like seeing a pattern in the clouds or in the stars, many chart patterns and trend lines are difficult to quantify. I skip discussing these types of patterns in this book. Nevertheless, understanding chart patterns is an essential ability of the successful day trader. Therefore, in Chapter 6 I introduce a day trading strategy based on a simple formation: the ABCD Pattern.

Figure 5.4 - KR daily chart for the summer of 2016. A trend line on the same chart can be drawn whichever way a trader wishes.

There are, however, two chart patterns that I respect on 5-minute charts: (1) the bullish trend of Higher Highs and Higher Lows, and the bearish pattern of Lower Lows and Lower Highs; and (2) Bullish and Bearish Engulfing. Let me explain them in detail in the next section.

Higher Highs and Higher Lows, Lower Lows and Lower Highs

One of the most powerful chart patterns is the so-called Higher Highs and Higher Lows, especially on higher time frames such as 5-minute and daily charts. I usually do not look for it on 1-minute charts. The Higher Highs and Higher Lows Pattern is comprised of two candlesticks, with the high of the second candlestick being higher than the high of the previous one. Similarly, the low of the second candlestick is higher than the low of the previous one, as conceptually shown on the left-hand side of Figure 5.5. As you can see, as a Higher Highs and Higher Lows Pattern unfolds, the buyers are more aggressive and constantly making new highs (compared to previous candlesticks), and the sellers are not strong enough to push the price any lower than the previous candlestick. This is a very bullish trend.

Figure 5.5 - Higher Highs and Higher Lows (bullish pattern) and Lower Lows and Lower Highs (bearish pattern).

Similarly, a bearish pattern is the opposite. When candlesticks are making lower lows and lower highs compared to previous ones, this can indicate a bearish downfall trend as shown conceptually on the right-hand side of Figure 5.5. It does not matter if each candlestick closes red or white, what is important is the positioning of highs and lows compared to the previous candlestick.

Recognizing these patterns has been vital to my trading success. I am very careful not to go long when the stock is constantly making lower lows and lower highs. Similarly, if I am short, and the stock is constantly making higher highs and higher lows, I need to get out before it's too late. For example, when I show Figure 5.6 to new traders in my class and ask them where the uptrend has started, most of them think that the uptrend has started at candlestick D. In fact, the uptrend can be identified right after candlestick B closes, because candlesticks A and B are already showing a Higher Highs and Higher Lows Pattern. Professional traders may go long after candlestick B closes in order to have a better entry and lower risk, but amateur traders try to jump in at candlestick D, or even E, when the move has already started and is being extended.

Similarly, when I ask new traders where the uptrend ended, they think at candlestick F, but in reality the uptrend is still in effect even after candlestick I, a red candlestick, because there is still the pattern unfolding of higher highs and higher lows. An inexperienced trader may take an early profit at candlestick G when it closes as a red Doji, but professionals keep some of their position to run further until a new 5-minute low is made, and the Higher Highs and Higher Lows Pattern is broken.

Figure 5.6 - A series of candlesticks showing where a Higher Highs and Higher Lows Pattern has started. Where do you think the uptrend has ended?

Please note that I have not yet introduced any of my trading strategies. It's important to be patient until you reach Chapter 6 where I explain in detail my preferred strategies. I am not recommending that every time you see a Higher Highs and Higher Lows you should go long, and every time you see a Lower Lows and Lower Highs you should go short. I am not recommending that at all. It's important to recognize these patterns, but how to successfully utilize them for a successful trade will be discussed in later chapters. Remember, a successful trade requires the analysis of many indicators and parameters, and price action and chart patterns are only one of those.

In the next section I will review some successful and some not so successful trades in order to demonstrate how to make use of this knowledge to manage your trades. Every day, I post the results of my own trading in my YouTube channel, along with an analysis of the strategies I traded as well as how the price action unfolded on the stocks I considered in play that day.

Engulfing Patterns

Another powerful chart pattern that I look for on 5-minute charts is the so-called "*Engulfing Pattern*". Bullish and Bearish Engulfing Patterns are one of my favorite candlestick charting patterns. Similar to Higher Highs and Higher Lows, Engulfing Patterns involve two candlestick bars, not one.

Bullish Engulfing Patterns form when a candlestick bar opens lower than the previous candlestick's close and closes higher than the previous candlestick's open, as shown conceptually in Figure 5.7. The pattern begins with a candlestick bar that has a small body and is followed by a candlestick bar whose body "engulfs" the previous candlestick's body.

Figure 5.7 - Bullish Engulfing Pattern.

Why is this pattern so bullish? It represents a major defeat, so to speak, for the sellers and/or short sellers (the bears). When the second candlestick bar opens, the sellers are already pushing the prices below the prior candlestick's close. You may think the bears are winning, however, the buyers will step in and begin purchasing aggressively. Not only are they able to reverse the direction from the open but they also manage to push the prices higher than where the sellers began the previous day. Think of a Bullish Engulfing Pattern as a "*surprise*

victory" in a battle where an infantry division loses not only the gains it made in the previous day but also much more.

I've found Bullish Engulfing Patterns to be an excellent reversal indicator (otherwise I wouldn't be covering them). However, as mentioned many times thus far, this pattern is also one of the indicators and you need to always be looking for subsequent price action and other indicators to confirm the reversal. If prices trade below the pattern again, perhaps the pattern failed.

Similarly, a Bearish Engulfing Pattern occurs at the end of an uptrend and may signal an important reversal. Similar to the Bullish Engulfing Pattern, a Bearish Engulfing Pattern is also formed by two candlesticks. The first candlestick consists of a small body. The second candlestick opens higher than the previous candlestick's close and closes lower than the previous bar's open, thus *engulfing* the first candlestick. Figure 5.8 demonstrates a Bearish Engulfing Pattern.

Figure 5.8 - Bearish Engulfing Pattern.

Trade Management Based on Price Action

Two traders enter into a trade based on one strategy. The trade goes their way and then pulls back a bit. The first trader fears losing their gain and takes a quick, small profit. The second trader adds to the position on the pull back and books a much larger gain. Same idea, different outcomes, all as the result of two different mindsets and trade management styles.

Successful trade management is the key to success in a trade and is just as important as the quality of your initial trade plan. By trade management, I mean something different from finding the Stocks in Play and then executing a strategy. Rather, trade management refers to what you do with your position after you enter it and before you exit it.

The proper management of trades makes all of the difference between consistently profitable traders and those who eventually fail. Novice traders believe that when they enter the trade, they should not do anything else but patiently wait for the price to hit their profit target or stop loss level. This is the opposite of what professional traders do. The professionals know that this is not enough. When you plan for the trade and enter a position, you have a minimum of information about the market and the validity of your idea. As the market moves after your entry, you will receive new price action and data about your initial trade idea: the price action of the stock is either supporting or not supporting your reasons for being in that trade. Therefore, you need to manage your open position.

Trade management means that you have to be actively engaged in processing information while the trade is on, not just watching your position or moving away from your computer and hoping that your profit target order hits. For example, if you are expecting a break from a strong support level to the downside, and you want to profit the move to the downside with a short position, you may want to start with shorting 100 shares. When the stock makes a new low from that level, the scalpers and algorithms will usually start scalping when the level breaks to the downside with a profit of 5 to 10 cents. When those scalpers take their profit, the price often pulls back to that support level to test it as a new resistance level. If it is held below the support level (now acting as a resistance level), you can start adding to your short position on the way down. If it does not act as a resistance level and the price moves back up, you will get stopped out for a small loss because you had only shorted 100 shares.

Unfortunately, trade management is the most important element of

learning how to be a consistently profitable trader and, at the same time, it is very difficult to teach to new traders, especially in a book. Trade management requires experience and real time decision making. That is why I strongly encourage you to join a community of traders, watch for a few weeks how experienced traders trade, and hear their thought process on managing their open trades. I know this sounds like an advertisement for chatrooms and communities, but in all honesty, there is considerable value in observing the thought process of experienced traders, if they are willing to share it with others, no matter if it is in real time chatrooms or elsewhere.

It always intrigues me in our chatroom when two experienced traders select the same stock: one long and the other short. Often, by the end of the day, both are profitable, proving that experience in trade and risk management and proper position sizing are more important than the stock and the direction that traders pick. Often my friend Brian Pez and I will trade against each other, but we will both be profitable when we finish our day. And how does that happen? It's based on practice, discipline and controlling our emotions in the heat of the trade, even though I do like to think that I'm a better trader than him!

One of the most important trading rules is to take partial profit when a trade goes in your direction. You should take 1/2 or 1/4 of your position as profit and let the remaining position continue to move in your direction. For me, when a trade goes in my favor, I will take 1/4 of my position at the next potential profit target. I defined a Hotkey that automatically exits 1/4 of my remaining position. For example, when I am short 800 shares of a stock, the first press of that Hotkey is to cover 200 shares. The next press will be to cover 1/4 of the remaining 600 shares (150 shares), which my platform automatically calculates and sends to the market. I do not need to do this calculation in my head and type it in every time.

Before providing some examples, let me explain two important fundamentals of successful trade management:

1. Never let a winning trade turn into a loss
2. Move your stop loss in the direction of your trade

When you enter into a trade, you must define a protective stop loss against your entry. The price (hopefully) will move in your direction and you will then have an "unrealized" profit. Never let that open trade that shows a decent unrealized profit turn into a loss! Never! Before you enter into a trade, start planning at what level you will begin to protect your profits. For example, if your profit target for a trade is about $1,000, you may decide that a profit of $250 needs to

be protected. Once your open profit rises to $250, you can close a portion of your position and move your stop loss to the break-even. I usually close at the 1/4 point and move my stop loss to break-even. Soon after moving your stop loss to break-even, you will be in the driver's seat of the trade. You will have nothing to lose and you will now be trading with the house money.

After you booked that first profit of $250, you should decide what percentage of the open profit you'll protect. For example, you may decide that once the break-even stop loss is in place, you'll book another 1/4 of your unrealized profit in another level. These levels aren't set in stone. You may choose different percentages depending on your level of confidence in a trade and your risk tolerance. As the trade moves in your favor, your remaining unrealized P&L will shrink.

Now imagine you go long on a stock and put a stop below your entry. That price rises but pulls back in a way that results in your unrealized P&L going negative, inching toward your stop loss. What will you do next?

First of all, as I discussed above, you should learn from your mistake of not having moved up your stop. That stop should have already been raised to break-even. You now have limited options: either take a small loss right away or continue to hold. However, many traders often choose an utterly unplanned choice: to lower the stop loss, giving that one losing trade a little bit "more room". Only this time, they say. Don't do it! The logical thing to do when a trade starts acting badly is to accept a small loss and continue to evaluate the chart and be ready to trade it again if another opportunity reveals itself. Breaking risk management rules by doing a marginal cost analysis of "just this once" usually results in an unending stream of extenuating circumstances.

The marginal cost of breaking a rule "just this once" always seems to be negligible, but in trading, the full cost of it will often be much higher and too many "just this once" will almost always result in significant financial loss and the ending of one's trading career. Yet unconsciously, many traders employ the marginal cost doctrine in their trading and for their losing trades. A voice in the trader's head says, "*Look, I know that as a general rule, I shouldn't do this. But in this particular trade, just this once, let's give it more room.*" And the voice in their head seems to be right; the price of doing something wrong "just this once" usually appears seductively low. However, it suckers you in, and you don't see where that path is ultimately headed or the full cost that the choice entails.

When I wanted to lose some weight, my personal trainer provided me

with an excellent, easy-to-follow diet. He mainly cut sugar, white flour, and simple carbohydrates from my diet and replaced them with healthy fats, protein and complex carbohydrates such as oatmeal and yams. It was a perfect diet. He also allowed me to have one “cheat meal” per week, on the day that I trained and ran the most. In the cheat meal, I was allowed to have whatever I wanted, even ice cream.

As much as I knew that this diet was beneficial to me, I could never follow it and stick to it. Every time I had that cheat meal, I was back into my old habits of craving sugar. It was basically an eating disorder, perhaps even a psychological disorder. Like an alcoholic on a rehab program, it takes only one sip to get back into the bad habits. More people in the world are addicted to food than to anything else. Sugar, oil and salt are the three most addictive chemicals humans have ever tried. Is it any wonder why potato chips and French fries are among the unhealthiest foods on the planet but millions of people are eating them every day. They are a drug on top of a drug on top of a drug: sugar covered with oil covered with salt.

I was wondering why I could not follow my diet, until I decided to remove the cheat meal from the diet plan. As soon as I did, I was able to follow the diet perfectly, and I shed the few extra pounds I was trying to lose before the summer. And here's the lesson I learned: it's easier to hold true to any principle 100 percent of the time than it is to hold true to it 98 percent of the time. The boundary is powerful because you just don't cross it; if you have justified crossing it once, there's nothing to stop you from doing so again and again. Similarly, in trading, giving a trade more room “just this once” is an act of desperation arising from wishful thinking. Professional traders will accept a small loss and stay alert for another trade. They often take several quick stabs at a trade before it starts running in their favor and toward a large profit.

To illustrate these points, let’s review some real trades that I took. Figure 5.9 shows my trade management while I was trading ADBE on June 21, 2017. I went short at 9:40 a.m. in two stages with the average price of $145.25, and with a profit target in mind at the $144.25 level and the 50 SMA on my 5-minute chart. My original stop loss was above VWAP at around $145.70.

Figure 5.9 - Example of stop loss management in a trade on ADBE.

The price sold off quickly and I covered half of my position at my first target of $144.25. As soon as I covered my half-position, I decided to bring my stop loss to break-even. I would not allow this stock to go

against me anymore! Now, my new stop loss was at around my entry average price of $145.25. As you can see, the price failed to make a new low on my 5-minute chart and instead bounced back. A higher highs and higher lows trend started to appear on my 5-minute chart, which you will recall is a bullish pattern. I got out of my position at break-even and booked the small profit.

In the above example, after I got out, ADBE squeezed above VWAP, and a VWAP False Breakout occurred (see Chapter 6), and eventually hit the 50 SMA on my 5-minute chart at around 12 p.m. (not shown on the chart reproduced above). You may conclude from this example that if I had stayed in my original trade plan, I would have made more money, as I had initially planned to. It's important to note though that this example is an exception and often in these types of situations you will get stopped out with a severe loss. Furthermore, you could always have got back into the trade at around 10:30 a.m. when the VWAP False Breakout appeared. Again, when I entered the trade, I had no idea that the price might reverse on $144.25 or that a VWAP False Breakout would occur. This information was revealed to me after I entered the position, and I needed to adjust my trade plan, such as moving my stop loss or re-entering the trade again at an appropriate entry point.

Recognizing bearish or bullish candlesticks and their patterns will help traders to both select better directions for their trades and reduce their losing trades. For example, let's review a losing trade I made on TEVA on October 5, 2017, as set out in Figure 5.10 below. TEVA sold off heavily at the Open and made a low of the day at $15.59. It was an excellent short opportunity at the Opening Range Breakout (see Chapter 6), but I missed taking that trade. The price bounced back toward VWAP, and I took the trade short at $15.75 at 10:05 a.m., below the VWAP, with a profit target of the low of the day and below. The stock did not lose the VWAP and traded higher. I added more to my short position at $15.80 (now a new average of $15.77). Eventually, at 10:15 a.m., the stock squeezed above the VWAP and I stopped out at $15.85 for a loss of about 8 cents per share.

Figure 5.10 - Example of a trading mistake in TEVA.

What was my mistake? When the price bounced back to VWAP, it might have been a good short opportunity, but in this case the price action was not indicating a short position and I failed to recognize that. When the stock sold off to $15.59 with a big bearish candlestick, suddenly a bullish candlestick appeared as well. It was not quite like an Engulfing Pattern, but still, a strong bullish candlestick right after a bearish candlestick was not a good sign. If the sellers were still in

control, then you could expect a consolidation period with some smaller candlesticks or Dojis and then another wave of selling off. But in this example, at 9:50 a.m. a bullish candlestick showed up, and a Higher Highs and Higher Lows Pattern appeared back to VWAP. Do recall that this is a bullish pattern, so going short like I did was not a good idea even though TEVA appeared to be weak right at the Open. The price action was showing that the pattern had changed, and it was no longer wise to bet on the sellers. As you can see, the stock never again traded below the VWAP by the time I took this screenshot at around 11 a.m.

My mistake was failing to recognize the pattern change from bearish to bullish. I failed to notice the bullish candlestick following the sell off (which was a signal that the sellers were now exhausted) and I sold short when the stock was in a bullish Higher Highs and Higher Lows Pattern. If I had realized this at the time, I would have avoided this trade, or at least I would have waited longer for a better confirmation.

Another excellent example of utilizing price action in trade management is shown in Figure 5.11, a screenshot of my trading in Nordstrom, Inc. (ticker: JWN) on September 13, 2017. The stock sold off heavily in the first 5 minutes and I decided to go short for an Opening Range Breakout at $47.45 with a stop loss above VWAP. When the price went lower, I added more at $47.30 with a profit target below the low of the day (which was around $47.20 by that time). The stock failed to make a new low of the day between 9:35 and 9:40 a.m. and bounced back with a Higher Highs and Higher Lows Pattern toward VWAP. I stayed in my position until I got stopped out at $47.67.

Figure 5.11 - JWN price action analysis. Can you see the Higher Highs and Higher Lows Pattern between 9:35 and 9:50 a.m.?

What went wrong? My original idea was reasonable. The stock sold off heavily at the Open and it seemed to be a great short opportunity. However, when the stock failed to make a new low on the second 5-minute candlestick, and bounced back with a series of Higher Highs and Higher Lows Patterns on my 5-minute chart between 9:35 a.m. and 9:50 a.m., I should have come out of the trade earlier with a smaller loss or possibly at break-even. My original trade plan was not valid anymore and I could see it. All of the new information was signaling a pattern change: no new low was being made, and a Higher Highs and Higher Lows Pattern had formed. I stuck to my original stop loss above the VWAP, but based on the new information from the

price action, I should have changed my stop loss and got out earlier.

Let's review another trade that I took, this time on JD.com, Inc. (ticker: JD) on November 13, 2017, as set out in Figure 5.12 below. The stock at the Open went up with heavy volume, but quickly sold off with a huge bearish candlestick at the resistance level of $42.74. This looked like a strong Bearish Engulfing Pattern, although the candlestick at 9:35 a.m. did not completely engulf the opening candlestick at 9:30 a.m. However, the defeat of the buyers was very obvious to me so I went short at $41.80 with a stop loss at around $42, just above VWAP. I had two profit targets in mind: the daily level of $41.12 and 200 SMA on my 5-minute chart. JD sold off heavily as I anticipated toward $41.12. I covered 1/4 of my position at $41.12 and another 1/4 at $40.80 for a good profit. I then moved my stop loss to break-even as I had already booked profit on the trade. However, I noticed that JD had failed to make a new low at 9:45 a.m. and instead had bounced back with a bullish candlestick back toward VWAP. I decided to cover all of my position at $41.13.

Figure 5.12 - JD trade management analysis.

Why did I cover too early and not stick to my stop loss at the break-even? The reason for that was because I noticed that the stock did not make a new low of the day and a bullish candlestick showed up next to a bearish candlestick. Although it was not strong enough to make a Bullish Engulfing Pattern, I did not trust the sellers to make the new lows so I covered before the price went to my new stop loss. In doing so, I was able to save some of my profit. If I had not utilized this new information and instead had stayed in my position, I would have stopped out at $41.80 after 10 a.m., but I am glad I protected my last piece of profit because of my continual review of the price action. As you can see, the stock started a Higher Highs and Higher Lows Pattern above $41.12 and squeezed above VWAP later in the morning.

In addition, please note that I do not consider pre-market prices in the daily range. For example, in the above-referenced JD trade, you can see that the prices were around $40.60 just before 8:30 a.m. in the pre-market, but when I say a new low of the day, I mean a new low in the price range after the market Open, and not including the pre-market range.

A very similar trade management plan can be seen again on JD on August 14, 2017, as set out in Figure 5.13 below. The stock opened weak and sold off heavily toward the daily level of $43.23. I took the trade short at $44.10 just below the VWAP after the first 5 minutes

closed below VWAP. My original stop loss was at $44.20 with the profit target of $43.23 and another lower level of $42.50 (not shown in Figure 5.13). The stock sold off as expected toward $43.23 and I covered 1/4 of my position. I changed my stop loss to break-even after this first profit taking. However, I noticed that JD had failed to make a new low after my first cover, so I decided to cover another 1/4, just in case, as I was not really certain if the sellers were still in control. The price bounced and made a new low at 9:50 a.m., but again started a Lower Lows and Lower Highs Pattern toward the low of the day. I was still hopeful that the price would make another intraday low and move below the $43.23 level but, at 10:05 a.m., I noticed that the price had again failed to make a new 5-minute low. That was the moment that I decided to cover my remaining position price. I was almost certain that the price would bounce back to VWAP because it had failed to make the new 5-minute low again.

Figure 5.13 - JD trade management analysis.

Was it a correct decision? As you can see after my last cover, the price bounced back to VWAP and went higher during the day. I could have kept my last position until I get stopped out at break-even, around $44.10, but I decided to book the profit earlier at $43.50 and not wait until my stop loss. Had I stuck to my plan and not analyzed that new information, I would have lost that extra profit from my remaining position.

Let's review another trade I took, this time on FOLD on September 13, 2017. At the Open, FOLD was strong and moved higher, but it sold off heavily back to VWAP between 9:40 and 9:45 a.m. I was getting ready to go short below VWAP, but then I noticed a very strong bullish candlestick had been established between 9:45 and 9:50 a.m. This candlestick next to its previous bar resembled a Bullish Engulfing Pattern (although not perfect, but very close!). Do note as well that strong institutional trading can often be expected near the VWAP. I was suspicious that this bullish bar might indicate that powerful institutional traders were buying at the VWAP. And I will stress right here that we day traders want to always trade alongside these big players, not against them. I also had a resistance level of $14.04 nearby, which was yesterday's high (Y High). This level was in fact marked on my chart automatically by my DAS Trader Pro platform's PriceMarker Study (see Chapter 4). Considering all of this information, I went long at $13.80 and sold my position toward the level of $14.06, as marked in Figure 5.14.

What was the entry signal for me? The entry signal for me was the identification of a bullish bar next to a bearish bar. I realized that the

sellers were exhausted and, as an undecided trader, I therefore joined with the bulls to push the price higher. We did.

Figure 5.14 - Example of an Engulfing Pattern on FOLD.

Position Sizing

Position sizing refers to how large of a position that you take per trade. Some trades are so obvious that you can take a huge position or, as some call it, "*load the boat*". These setups are shouting, "*grab me by the face*". Some trading opportunities are attractive enough for a "large" position. In other trades, you just want to go for a taste and perhaps add more later. Learning when to have the most size is a skill that new traders must acquire. Poor position sizing leads to inconsistent results. In an upcoming chapter I will provide some thoughts on what I call the 2% rule: no matter how good of an opportunity, you may not risk more than 2% of your account in one trade. Live to trade another day.

New traders think they need to trade with huge size to make significant profits. There is plenty of money to be made trading with modest size, especially in actively traded medium float Stocks in Play. You can make considerable money trading in and out of an active stock with small size. Likewise, you can lose a great deal of money trading in and out of an active stock with too big of a size.

New traders often ask me how much size to take in a trade. This is not a good question. The correct question is whether you can handle the size you are taking, regardless of how much buying power you have. Institutions and proprietary trading firms have significantly larger and deeper pockets than individual retail traders like us because they negotiate with a clearing firm to gain intraday buying power. While retail traders like us can only receive a 4:1 margin, a trading firm with a successful track record can obtain almost unlimited intraday buying power. They can offer as much buying power as they want to any trader within their firm, but they don't. They have strict risk control rules, and each trader has a limited buying power to start. They slowly increase the buying power of their traders as they improve. More experienced traders have access to a larger buying power, and their profit offsets the losses of new and less experienced traders, to make their collective risk minimal.

Although I take a large position at times when the risk/reward is in my favor, I know I need to be able to handle the risk. When I take a large size and get a bad hit, I am able to recover. A bad loss right at the Open does not paralyze me. I am able to reassess my trading situation and continue trading.

Position sizing essentially depends on the type of stock you are trading. Medium float stocks make smaller moves in price and are therefore easier to manage the risk in during a trade. In contrast, for

low float stocks that can move 10% or 20% in a matter of seconds, I never take a large position, even though their price is typically low (in the range of $1 to $10) and I have sufficient buying power for a very large position.

I suggest traders start with only 100 shares. One hundred shares is low risk, and although it's a low reward, you need to start somewhere. When you are more confident in managing your emotions, you can increase the share size slowly. Develop your trading skills, build your trading account, and slowly increase your size.

My trade size depends on the price of the stock as well as my account size and risk management rules (Chapter 7), but 2,000 shares is my recent usual share size if I am trading in the $20 to $50 price range.

For a more expensive price range ($50 to $100), I reduce my total share size down to 1,000 shares. I rarely trade stocks higher than $100. The more expensive stocks are less attractive to us retail traders and are often dominated by computers and institutional traders.

As explained earlier, some experienced traders never enter the trade all at once. They scale into the trade, meaning that they buy at various points. Their initial share size might be relatively small, but traders will add to their position as the price action validates their idea. They might start with 100 shares and then add to their position in various steps. For example, for a 1,000-share trade, they enter either 500/500 or 100/200/700 shares. If done correctly, this is an excellent method of risk and trade management. However, managing your position in this system is extremely difficult and of course requires a low-commission brokerage firm. Many new traders who try to do this will end up overtrading and will lose their money in commissions, slippage and the averaging down of the losing trades.

I rarely *scale down* into a losing trade. If I want to enter into the position in various steps, I try to *scale up*; I add to my winning position. Remember, scaling into a trade is a double-edged sword and beginners may use it incorrectly as a way to average down their losing positions, sending good money after bad. I don't recommend scaling as a method for beginners. Although they can appear similar, there is a huge difference between scaling into a trade and averaging down a losing position. Averaging down losing positions is perhaps the most common mistake a beginner will make and that will almost certainly lead to the end of their short trading career.

What is averaging down?

Imagine you buy 1,000 shares of a company above an important intraday support level at $10 in the anticipation of selling them at the next level of around $12. Instead, the stock breaks the support level

and drops to $8. You have lost the trade and you should have been stopped out. Since your original trade idea was to go long above the support level, and now that that level broke, you have no reason to be in that trade. But, if instead you buy another 1,000 shares at $8, you now have 2,000 shares with an average cost of $9. It is unlikely the price will hit your $12 target, but it is likely that the price will rally back to $9. At $9, you can sell all of your 2,000 shares at break-even and extricate yourself from this losing trade with no loss. Even better, if their price goes to $9.50, you can close your 2,000 shares with a $1,000 profit. That sounds very tempting, but it is wishful thinking.

For a beginner, averaging down a losing trade is a recipe for wiping out one's account. Remember, *averaging down does not work for day traders.* I have tried it. About 85% of the time you will profit when you average down. But the 15% of the time when you are wrong will blow up your account. The losses during these 15% of trades will far outweigh your gains from the 85%. Just forget about it. It is a waste of your mental energy. Remember, it only takes ONE bad trade to blow up your account and for you to be done with your day trading career forever.

Understanding Nasdaq Level 2 Signals

As I discussed in Chapter 2, the most important window in your trading platform is often the Montage window or Level 2. This next section is about understanding Level 2 and its signals for trading. Level 2 is often called market depth and sometimes you will find very useful information in there. Most of the time you really can't find any clear signals and answers there, but once in a while there are some clear signals for trading that you can use in addition to the other indicators and signals you have. One clear signal is when you notice a large order on the bid or on the ask. If you notice a large order on the bid it means that there's a big buyer sitting down. And the big buyer is a very **bearish** sign, signaling a drop in the price. Yes, you read this previous sentence correctly, a big buyer may signal a drop in the price.

On the other hand, a big ask may indicate there's a big seller sitting up there and that in fact may be a very **bullish** sign. Yes, again, you read this correctly, a big seller may signal an increase in price. Therefore, if you see a big ask, the price may increase.

I understand this is very counterintuitive for most people. People believe that, just like in any typical supply and demand system, a big buyer should push the price higher. And similarly, they believe a big seller will push the price lower as that seller might dump their shares at any moment. But that's not the case in day trading. It's usually the other way around.

I will explain this concept further with a few examples. As shown in Figure 5.15, on August 3, 2017, TEVA was selling off. The stock price was down 20%, and I noticed that at 11:21 a.m. there were many people buying at $25. At 11:26 a.m., five minutes later, the price hit $25, and after twenty additional minutes, it went to $24.52, and all of those people who were waiting were now gone. You can see that over time the price kept going lower and lower.

Figure 5.15 - Level 2 for TEVA.

But why? What was going on? If all of those people were big buyers, why wouldn't the price have gone higher?

Figure 5.16 – Screenshot of the Time and Sale window in the DAS trading platform. (If you are reading the print version of this book, this figure will appear in black and white. To access a color copy of it, please visit our website at www.BearBullTraders.com/audiobook.)

In order to answer that, you need to understand the psychology of the traders sending orders to the market. As I have mentioned, day traders are social psychologists sitting behind a trading platform and charting software. In the Time and Sale window of your trading platform, you can see where each transaction happened: was it at the ask or above the ask, or was it happening between the bid and the ask, or was it happening below the bid? The way traders are actually making their trades shows what kind of attitude they have toward the current price and its future direction. A screenshot of the Time and Sale window in my DAS trading platform appears above as Figure 5.16.

Figure 5.17 - Big buyers on Level 2: aggressive or not?

If people are buying at the ask or above the ask, it means that they are aggressive buyers. They are willing to pay more on the ask side. If I'm a big buyer, and I'm constantly buying on the ask, it means that I'm desperate. I may be short and I have to cover. I'm buying on the ask and I do not want to sit on the bid. It is unlikely that you will see any aggressive buyers on the bid side, waiting to perhaps get filled. The aggressive buyers will hit the ask. The not so aggressive buyers are "low-balling", they want the price to come to them. They bid lower and lower, as they know that the price will eventually come to them.

Imagine you are a big buyer in a depressed housing market. If you know the market is slow, you will be offering lower and lower prices to the seller of the house of your choice. You try to get a deal, and so you try to bargain for a lower price. But in a hot real estate housing market, houses are receiving multiple offers and buyers are willing to pay even more than the asking price in order to purchase the home of their dreams. That is the equivalent of hitting the ask and above the ask in Level 2. That is when the price moves higher.

But what if traders are constantly hitting the bid, or selling their position to the bid and lower? These are aggressive sellers. There could be any number of reasons they're willing to accept a lesser price on the bid side, but whatever the reason, they want to get rid of their stocks.

As you can see, this is all about the psychology of trading. If you take a look at the above Figure 5.17, do you think the bids that I have highlighted are from big buyers? The answer is yes, these are big buyers, but they are holding and waiting because they are not willing to pay to the ask. If they were really aggressive, they would go and hit the ask all of the time. However, these buyers are not aggressive, they are low-balling, they're just waiting, and forcing the price to come to them.

They're patient. They're not going to pay on the ask. They're not desperate, they're just waiting until the price comes to them. So yes, they are big buyers, but they can and they will wait until they can get the bargain price that they're looking for.

Something that is important about Level 2 signals is that if you want to trade on this level, there has to be an obvious imbalance in the orders: one side will have huge orders, and the other side will have nothing. This imbalance must be very obvious. In Figure 5.17 it is obvious that there are considerably more orders on the bid side. This is a good signal. However, if the Level 2 data presents in such a way that you really cannot say which side is stronger, then that is probably not an indication of anything. It's just random, because in order to have a clear signal there has to be a very clear and powerful bid or a very clear and powerful ask.

Fake or Real Signals

Market makers know this, and sometimes they try to mislead traders with orders that they have no intention of filling. These orders are called NITF orders (no intention to fill orders). They do this to give the impression that either an abnormally big buyer or an abnormally big seller is in the market. To distinguish between these real orders and no intention orders, you have to see where they are placed in the market book. Real orders are placed near the current bid and ask, and they are likely to get filled. No intention orders, on the other hand, are usually placed far from the current bid and ask. They can be quickly and easily cancelled.

Figure 5.18 - In the left-hand image, real orders on the bid side from various market makers and, in the right-hand image, an example of an NITF (no intention to fill) order on the ask side from market maker CHX. The ask of 40,000 shares by CHX is obviously too far from the current ask, and there is no point for any market maker to show their hand like this.

As you can see on the left-hand side of Figure 5.18, the big bids from market makers EDGX, NSDQ, BATS and ACB are very close to the current bid, only 1 cent away, so they are most likely legitimate. However, on the right-hand side of Figure 5.18, you can see a 40,000 offer all on its own, which means this is probably an NITF (no intention to fill) order because its ask price is quite far away from the current bid or ask. The stock is currently being traded at around $24.56 or $24.57. This particular market maker just put out an ask at $24.98, which is 40+ cents away from the current price. It's just a random number and the seller did this only to manipulate the market

and to manipulate amateur traders who would not know any better. It is not a serious ask because the price would never immediately jump up to $25. If the seller was serious, they would have put their ask in the $24.58 to $24.59 range. In the above example, the only serious bids and asks are going to be between $24.50 and $24.63. These are the ones that could get filled immediately. Any other orders are really not intended to be filled. The signals you are looking for are the ones that are very close to the current bid or ask.

Let's review another example of a clear trading signal on Level 2, as set out in Figure 5.19. On the left-hand side you will see two big bids at $42 each. This can be a short selling signal. As discussed, these big bids are bearish, meaning that the traders expect the price to drop even more. Less than one minute later it did drop from $42 to $41.84. Traders now take their bids even lower, expecting an even further price drop. Remember, the buyers are low-balling, they are not willing to pay higher, and they expect the price to go lower. The big bids now go lower, to $41.80, and less than 20 seconds later the price drops again to $41.66.

Figure 5.19 - Example of a clear trading signal on Level 2 for Micron Technology, Inc.

Now that you understand these levels, the burning question is, should you take the trade every time you find these clear signals? The answer to that question is no. The introduction of high frequency and algorithmic trading has made trading more challenging for retail traders like us. Many signals appear and disappear quickly in the market depth. Therefore, it is important to not base your trading decision only on one signal or indicator.

In other words, every time that you see a big bid does not mean that you should go short, nor every time that you see a big ask should you go long. Level 2 signals are only one indicator that you should look at. I never trade based only on one signal or indicator. You have to objectively look at the Level 2, and then also look at other indicators, and then put everything in perspective, and only then make your decision.

Where is the price compared to VWAP? What about the daily chart? Is there any important level nearby? What about the volume? There are many other important indicators that you have to look at before entering any trade. You have to make sure that when you're actually making a trade based on a Level 2 signal indicator, that there are also other indicators to confirm the trade you're about to make. For example, if the stock is selling off heavily on a 5-minute chart, but you

see a signal on the ask, you should not just go long based on that signal only. You need to consider many other indicators before taking that reversal trade.

You'll recall in Figure 5.19 above, the Level 2 for MU on December 26, 2017, there were two big bids placed for $42 each. It was a very clear Level 2 trading signal. Now let's look at the other indicators for MU that day. Figure 5.20 shows that: (1) MU had hit my Turbo Breakdown Scanner with heavy volume, (2) on my 5-minute chart I saw a series of bearish candlesticks and a Lower Lows and Lower Highs Pattern, and (3) on my daily chart I saw that MU was selling off below all of the daily moving averages toward an important level of $41.73 (which I've marked on the chart). This combination of signals, in addition to the Level 2 signal discussed above, offered a good trading opportunity.

Figure 5.20 - Several signals on MU which taken together indicated a good trading opportunity.

Because this stock was going through a very important support level, there was a really good chance it would sell off to $41.73. And as you see, by the time I took a screenshot of it, it did in fact drop to $41.73. So that's the entire point. Everything else was confirming that the stock was going to sell off. Even if you didn't have that Level 2 signal, you probably would have still taken this trade.

Another excellent illustration of signals in Level 2 is shown in Figure 5.21, the Level 2 of MOMO on March 7, 2018. MOMO was selling off below the VWAP and it was perfect for an Opening Range Breakout with a short position. I was ready to go short, but I saw big sellers on the ask. These sellers were not desperate, and they were "demanding" higher prices, because they knew the price would come to them. As you can see, the stock went from $36.92 at 9:39:13 a.m. to squeeze above $37.42 at 9:39:53 a.m. You will also see in Figure 5.21 that there is a no intention to fill (NITF) order at $38.95 by the market maker AMEX.

This example is interesting because I actually did trade MOMO on the short side. I went short below the VWAP, but when I saw the bullish signal on Level 2, I covered my shorts early, therefore avoiding a bad short squeeze (if you are not familiar with what a short squeeze is, please take a moment to look at the definition in the Glossary at the back of this book). It happened that I actually recorded this trade live and you can check my YouTube channel or my website to watch this trade and price action in real time. Here's a link: https://youtu.be/

wDoW94Qxvy4

The key takeaway in this trade is: I did not go long just because I saw this Level 2 signal, instead, I avoided a loss by managing my trade based on this signal. Why did I not go long after seeing this signal? The reasons are important to understand. The price action, my charts and the other indicators were not supporting a long position. MOMO was selling off heavily below VWAP and I was leaning more toward going short rather than long. The signal was not strong enough for a long trade, but it was enough to indicate that the sellers may soon get exhausted. Please watch the video in real time in the above link and you can follow along with my real time decision-making process as well as listen to some commentary from me.

Figure 5.21 – Level 2 signals on MOMO.

Chapter 6:
Advanced Day Trading Strategies

In this chapter, I will introduce some of my strategies, based on three elements: (1) price action, (2) technical indicators, and (3) candlesticks and chart patterns. It is important to learn and practice all three elements at the same time. Although some strategies require only technical indicators (such as moving averages and VWAP), it's helpful to also have an understanding of price action and chart patterns in order to become a successful day trader. This understanding, especially regarding price action, comes only with practice and experience.

As a day trader, you shouldn't care about companies and their earnings. Day traders are not concerned about what companies do or what they make. Your attention should only be on price action, technical indicators and chart patterns. I know more stock symbols than the names of actual companies. I don't mingle fundamental analysis with technical analysis while making a trade; I focus exclusively on the technical indicators. I don't care about the fundamental aspects of companies because I'm not a long-term investor - I'm a day trader. We trade very quickly - guerrilla trading! – at times we will trade in time periods as short as ten to thirty seconds.

Every trader needs their own strategy and edge. You need to find your spot in the market where you feel comfortable. I focus on these particular strategies because these are what work for me.

I've come to recognize in my trading career that the best setups are the strategies that I will be explaining in this chapter. In theory, they are simple, but they are difficult to master and require plenty of practice. These trading strategies give signals relatively infrequently and allow you to enter the markets during the quiet times, just as the professionals do.

Another point to remember is that in the market right now, over 60% of the volume is algorithmic high frequency trading. That means you are trading against computers. If you've ever played chess against a computer, you know that you're eventually going to lose. You might get lucky once or twice, but play often enough and you are guaranteed to be the loser. The same rule applies to algorithmic trading. You're trading stocks against computer systems. On the one hand, that represents a problem. It means that the majority of changes in stocks that you are seeing are simply the result of computers moving shares

around. On the other hand, it also means that there's a small handful of stocks each day that are going to be trading on such heavy retail volume (as opposed to institutional algorithmic trading) that you will overpower the algorithmic trading and you and I, the retail traders, will control that stock.

Each day, you need to focus on trading those particular stocks. These are what I call in Chapter 3 the Stocks in Play, stocks that are typically gapping up or down on earnings. You must look for the stocks that have significant retail traders' interest and significant retail volume. These will be the stocks you will trade, and together, we the people, the retail traders, will overpower the computers, just like in a storyline for the next *Terminator* sequel.

I personally use the candlestick charts explained in Chapter 5. Each candlestick represents a period of time. As I mentioned before, you can choose any intraday time frame, depending on your personality and trading style: hourly charts, 5-minute charts, or even 1-minute charts. My preference is 5-minute charts, but I will also simultaneously monitor 1-minute charts.

And please, remember, my philosophy of trading is that you must master only a few solid setups to be consistently profitable. In fact, having a simple trading method will work to reduce confusion and stress and allow you to concentrate more on the psychological aspect of trading. That is what separates the winners from the losers.

Strategy 1: Fallen Angel

One of the powerful strategies I use for low float stocks is the so-called "Fallen Angel". An Angel is a low float stock (usually less than twenty million shares) that has gapped up significantly due to important fundamental news. The stock will be trading heavily in the pre-market, with often over one million shares before the Open. With low float stocks, and for this strategy in particular, the trading volume is the key. If the stock does not have much volume, no matter how much it has gapped up, or what the float really is, you should stay away from it. Low volume low float stocks are subjected to "pump and dump" or manipulation and trading them often results in heavy losses.

The Angel (our low float Stock in Play) usually opens higher and makes a new high of the day quickly, but will then sell off heavily. The first uptick at the Open is often a trap for bullish traders, and is followed by a massive sell off either because of heavy profit taking from overnight traders or short sellers or both. When the Angel sells off, it has every right to go down, however, if it holds a support, it usually comes back up above VWAP and the previous high of the day. That's typically when you want to catch it.

To summarize this pattern: when the market opens, the stock will make a new high of the day but sell off quickly. You do not want to jump into the trade yet, not until it consolidates around a trading level such as the low of the pre-market, or moving averages on a daily or 5-minute chart. As soon as the stock is coming back up with heavy volume, that is the place that you take the trade to the long side. The entry signal is to see a new 1-minute or 5-minute high after the consolidation with MASSIVE volume only. You have to remember that the volume on the way up needs to be significantly higher than previous candlesticks.

To illustrate this strategy, let's review my Gappers watchlist on December 14, 2017, as shown in Figure 6.1. As you can see, Schmitt Industries, Inc. (ticker: SMIT) has gapped up almost 70% with heavy volume at the pre-market. As can also be seen on the watchlist, by 9 a.m. almost 700,000 shares have been traded. You can also see that SMIT is a low float stock with a float of only 2.7 million shares. For your perusal, I have also included in Figure 6.1 a 5-minute chart for SMIT showing its pre-market activity.

Figure 6.1 - Gappers watchlist on December 14, 2017 (bottom) and 5-minute chart showing pre-market activity of SMIT (top).

As you can see in Figure 6.2, at the Open SMIT went higher and

quickly to $4.36 but then as quickly sold off below VWAP to around $3.70 and held that level for about 30 minutes. Right after 10 a.m., SMIT made a new 5-minute and 1-minute high (compared to previous candlesticks) with heavy volume and moved toward VWAP. It pushed toward the then high of the day of $4.36 and eventually toward the high of the pre-market of $4.48. A great entry would have been around 10:05 a.m. at around $3.80 when SMIT made a 1-minute high above 9 and 20 EMA with a stop loss below $3.70 (all shown in Figure 6.2). As discussed, the profit target could have been the VWAP at around $4, the then high of the day of $4.36, and the high of the pre-market of $4.48.

Figure 6.2 - 5-minute and 1-minute charts of SMIT showing potential entry, exit and stop loss levels.

As you know, I practice what I preach! I myself traded SMIT on that day based on this strategy and made $883, as can be seen in Figure 6.3. I also traded some other stocks that are not relevant to this strategy.

Figure 6.3 - My closed P&L on December 14, 2017.

Another example can be seen in my trading of Genocea Biosciences, Inc. (ticker: GNCA) after its surprisingly good earnings on Friday, July 21, 2017. When the market opened on Monday, July 24, GNCA quickly went up to $5.70, but then sold off as quickly toward $5.30 and consolidated around that level. Interestingly, as can be seen in Figure 6.4, both the 50 SMA on my 5-minute chart and the 200 SMA on my 1-minute chart were also around $5.30. Having two important moving averages on both 5-minute and 1-minute charts make that level even stronger. GNCA consolidated between $5.40 to $5.30 until it made a new 1-minute high at 9:47 a.m. with heavy volume toward the then high of the day of $5.70 and the high of the pre-market of $5.75. After it tested the high of the pre-market at around $5.75, it sold off back toward its low of the day.

A good entry would have been around $5.40 with a stop loss below $5.30 and profit targets of $5.70 and $5.75.

Figure 6.4 - 5-minute and 1-minute charts of GNCA showing potential entry, exit and stop loss levels.

I myself took that trade, but I could not make a good entry. I entered at around $5.55, added more at $5.60, and sold toward $5.75, with

only a $325 profit, as shown, along with my entries and exits, in Figure 6.5. These trades happen very quickly and getting an excellent entry and proper exit can be very difficult.

Figure 6.5 - Screenshot of my real time trade on GNCA on a 5-minute chart on July 24, 2017 showing my entries and exits and screenshot of my closed P&L for that day.

Similar trading behavior was seen on GNCA the following day. Figure 6.6, my Top List for July 25, 2017, shows that GNCA was still one of the Nasdaq's most active and highest gainers. Stocks in Play can remain in play for a few days after a fundamental news break.

Figure 6.6 – My Top List for July 25, 2017.

As you will see in Figure 6.7, when the market opened at 9:30 a.m. on July 25, 2017, GNCA quickly went up and made a high of the day of $6.55, but then sold quickly toward $6.20 and consolidated at that level. Again, as in the day before, 50 SMA on my 5-minute chart was also moving around this consolidation area, this time at $6.20. GNCA consolidated between $6.20 to $6.30 until it made a new 1-minute high at 9:43 a.m. toward the then high of the day of $6.55 and the high of the pre-market of $6.69. GNCA actually went to above $6.79 before selling off back toward its low of the day.

A good entry would have been around $6.35 with a stop loss below $6.30 and profit targets of $6.55 and $6.69.

Figure 6.7 - 5-minute and 1-minute charts of GNCA on July 25, 2017 showing potential entry, exit and stop loss levels.

Another example of the Fallen Angel Strategy can be seen when DryShips Inc. (ticker: DRYS) experienced another wild day of trading after its one-for-seven reverse stock split. When the market opened at 9:30 a.m. on July 24, 2017, DRYS quickly went up to $2.75, but then sold off quickly toward $2.35 and consolidated around that level. As can be seen in Figure 6.8, again, both 50 SMA on my 5-minute chart and 200 SMA on my 1-minute chart were also around this $2.35 level. As mentioned previously, having two important moving averages on both 5-minute and 1-minute charts make that level even stronger. DRYS consolidated between $2.45 to $2.30 until it made a new 5-minute high at 9:57 a.m. with heavy volume toward the then high of the day of $2.75 and the high of the pre-market of $2.84. After it tested the high of the pre-market, it moved toward testing yesterday's

high at $2.95, before selling off back below VWAP.

A good entry would have been around $2.45 with a stop loss below $2.30 and profit targets of $2.75, $2.84, and $2.95.

Figure 6.8 - 5-minute and 1-minute charts of DRYS on July 24, 2017 showing potential entry, exit and stop loss levels.

Another example of the Fallen Angel Strategy can be seen on Capricor Therapeutics Inc. (ticker: CAPR) on July 27, 2017, as set out in Figure 6.9. When the market opened at 9:30 a.m., CAPR quickly went up to $1.56, but then sold off quickly toward the low of the pre-market at around $1.30 to $1.35 and consolidated around that level. After the consolidation, it made a new 5-minute high as well as a new 1-minute high at 9:45 a.m. with heavy volume toward the then high of the day of $1.56 and the high of the pre-market of $1.63. After it tested the high of the pre-market, it sold off back below VWAP at around 10:05 a.m.

A good entry would have been around $1.40 with a stop loss below $1.30 and profit targets of $1.56 and $1.63 (a risk/reward ratio of approximately 2).

Figure 6.9 - 5-minute and 1-minute charts of CAPR on July 27, 2017 showing potential entry, exit and stop loss levels.

To summarize the strategy:

1. An Angel is a low float Stock in Play which is gapping with heavy volume in the pre-market.
2. At the market Open, our Angel makes a new high of the day but sells off quickly. You do not want to jump into the trade yet, not until it consolidates around an important trading level such as the low of the pre-market, or moving averages on your daily or 5-minute chart. This is where our Angel will have fallen to.
3. As soon as the stock is coming back up with heavy volume, that is the place you take the trade to the long side. The entry signal is to see a new 1-minute or 5-minute high after the consolidation with ***MASSIVE*** volume only. You must remember that the volume on the way up needs to be significantly higher than previous candlesticks.
4. The stop loss is below the consolidation period.
5. The profit target can be (1) VWAP, (2) the then high of

the day, (3) the high of the pre-market, and (4) any other important level nearby such as Y High or Y Low.

6. If you don't see an obvious support level and consolidation, do not trade the stock.
7. If you see a breakout but it does not have strong volume, do not trade the stock.

Fallen Angel is generally a difficult strategy to trade, especially since it is difficult to manage the risk in. You will have seen in the above examples that most of the drops are sharp, and if you are not quick in getting out of a losing trade, you may get stuck in a very bad position and be forced to accept a heavy loss. Remember, these stocks often gapped up significantly and can lose the majority of their gap during the day, so holding them during the day may not be a good idea, especially if volume is dropping during the day. I recommend trading this strategy in the simulator for some period of time before trading it live. When you go live, make sure to take small size. I know, it is easy to take a 10,000 share on a $1 stock, but remember, every cent up and down in a $1 stock is the equivalent of a 1% swing in your position. I usually take 4,000 shares for low float stocks below $10.

Strategy 2: ABCD Pattern / Reverse ABCD Pattern

The ABCD Pattern is one of the most basic and easiest patterns to trade, and it is an excellent choice for beginner and intermediate traders. Although it is simple and has been known for a long time, it still works effectively because so many traders are still trading it. You should do whatever all of the other traders are doing because a trend is your friend. In fact, a trend may very well be your only friend in the market.

Let's take a look at this pattern in Figure 6.10:

Figure 6.10 - Example of an ABCD Pattern on OPTT.

ABCD Patterns start with a strong upward move. Buyers are aggressively buying a stock from point A and making constantly new highs of the day (point B). You want to enter the trade, but you should not chase the trade, because at point B it is very extended and already at a high price. In addition, you cannot say where your stop loss should be. You must never enter a trade without knowing where your stop is.

At point B, traders who bought the stock earlier start slowly selling it for profit and the price comes down. You should still not enter the trade because you do not know where the bottom of this pull back will be. However, if you see that the price does not come down from a certain level, such as point C, it means that the stock has found a potential support. Therefore, you can plan your trade and set up stops and a profit taking point.

The above screenshot, marked as Figure 6.10, is of Ocean Power Technologies, Inc. (ticker: OPTT) at July 22, 2016, when they announced that they had a new $50 million contract to build a new ship (There's a fundamental catalyst! Remember Chapter 3?).

The stock surged up from $7.70 (A) to $9.40 (B) at around 9:40 a.m. I, along with many other traders who missed the first push higher, waited for point B and then a confirmation that the stock wasn't going to go lower than a certain price (point C). When I saw that point C was holding as a support and that buyers would not let the stock price go any lower than $8.10 (C), I bought 1,000 shares of OPTT near point C, with my stop being a break below point C. I knew that when the price went higher, closer to point B, buyers would jump on massively. As I mentioned before, the ABCD Pattern is a very classic strategy and many retail traders look for it. Close to point D, the volume suddenly spiked, which meant that many more traders were

jumping into the trade.

My profit target was when the stock made a new low on a 5-minute chart, which was a sign of weakness. As you can see in Figure 6.10, OPTT had a nice run up to around $12 and showed weakness by making a new low on a 5-minute chart at around $11.60. That is when I sold all of my position.

Figure 6.11 is another example, this time for SPU on August 29, 2016. There are actually two ABCD Patterns in this example. I marked the second one as *abcd pattern*. Usually, as the trading day progresses, volumes become lower and therefore the second pattern is smaller in size. Please note that you will always have high volumes at points B and D (and in this instance also at points b and d).

Figure 6.11 - Example of ABCD Pattern and abcd pattern on SPU.

The next example, as shown in Figure 6.12, is for Advanced Micro Devices, Inc. (ticker: AMD) on July 24, 2017. At the Open, AMD moved from $14 to $14.21 and sold off back to the VWAP. For 10 minutes, it consolidated above the VWAP and again moved higher toward the then high of the day of $14.21 and the daily level of $14.42. A good entry could be identified from my 1-minute chart when the stock found a support at VWAP and moved toward point B with higher than previous candle volume. The stop loss could have been a break below VWAP and the daily level of $14.42 would have been a reasonable profit target.

Figure 6.12 - Example of ABCD Pattern on AMD.

The next example, as set out in Figure 6.13, is for Micron Technology, Inc. (ticker: MU) on March 12, 2018. When you look at the 5-minute chart (the top image), you can see that at the Open, MU moved from $56.38 (point A) to $57.75 (point B) and sold off back to the VWAP for 15 minutes. It consolidated above the VWAP (point C) and again moved higher toward the then high of the day of $57.75. A good entry on the 5-minute chart would be when MU made a new 5-minute high above VWAP, as marked in the top image. I personally traded it earlier in the day, when another ABCD Pattern had appeared on my 1-minute chart.

In this example, you can see several different ABCD Patterns on the 1-minute and 5-minute charts. I've marked two on the 1-minute chart and one on the 5-minute chart. The entry marked on the 5-minute chart is exactly the same as the entry I marked for the second ABCD

Pattern on the 1-minute chart.

Figure 6.13 - Example of ABCD Patterns on MU

As set out on the 1-minute chart, when the stock found a support at VWAP and moved toward point B with high volume (significantly higher than the previous candle volume), I went long and sold toward the high of the day. My initial stop loss was a break below VWAP at around $57.13. As soon as I sold some of my position, I adjusted my stop loss to the break-even and then finally got out at the break-even. I unfortunately did not make a large profit on this trade as I sold only 25% of my position and then got stopped out of the remaining 75% of my position at the break-even. Figure 6.14 is a screenshot of my P&L.

Figure 6.14 - My P&L on MU.

Another excellent ABCD Pattern can be seen on NXT-ID Inc. (ticker: NXTD) on December 21, 2017, as set out in Figure 6.15. When you look at the 5-minute chart (on the top image), you will see that at the Open, NXTD moved from $4 (point A) to $6.74 (point B) and sold off back to the VWAP (point C) at around 10:15 a.m. For about 20 minutes, it consolidated above the VWAP and again moved higher toward the then high of the day of $6.74. I went long near point D at $6.50 and sold toward the high of the day above $7. However, a better entry could have been earlier if I had paid attention to the 1-minute chart. As you can see, I went long too late, just before the break of the high of the day, but $6.25 would have been a much better entry.

Please note that looking closely on a 1-minute chart can also help define a better stop loss. On the 5-minute chart, the only point C (support level) is really the VWAP at around $5, but that is a very far stop loss. A closer look at the 1-minute chart shows that 9 and 20 EMA around $6.25 could be used as a potential support level. If you break that level, it most likely will head lower toward VWAP as many traders will send stop loss orders to get out. In order for you to compare, I also marked the other support level on the 1-minute chart as point C.

Figure 6.15 - ABCD Pattern on NXTD.

Another example of ABCD Patterns can be seen on Applied Optoelectronics, Inc. (ticker: AAOI) on July 24, 2017, as set forth in Figure 6.16. I did not take this trade, but you can see two ABCD Patterns on my 5-minute chart, which are also marked on my 1-minute chart. Now, to practice, before reading ahead, try to think

through the potential trades you could take with these two charts. Feel free to email me your answer at andrew@bearbulltraders.com and I will share my thoughts on it with you.

Figure 6.16 - ABCD and abcd Patterns on AAOI.

Now that you have practiced this strategy, let's do another practice run, this time on The Finish Line, Inc. (ticker: FINL) on August 29, 2017, as set out in Figure 6.17. I executed an ABCD Pattern trade on FINL and I recall making good money on it. I identified those trading set ups on both my 5-minute and 1-minute charts as ABCD, abcd, and **ábćď**.

Figure 6.17 - ABCD, abcd and ábćď Patterns on FINL.

The trade that I took was only on the first pattern: the ABCD on the 5-minute chart. I made enough on that trade so I really had no need to keep trading. I entered the trade at $7.50 and exited at $7.98 and $7.80, as shown in Figure 6.18.

Figure 6.18 - My trade on FINL.

To summarize my trading strategy for the ABCD Pattern:

1. When I find a Stock in Play, either from my Gappers watchlist or from one of my scanners, or when I'm advised by someone in our chatroom that a stock is surging up from point A and reaching a significant new high for the day (point B), I wait to see if the price makes a support higher than point A. I call this point C. I do not jump into the trade right away.
2. I watch the stock during its consolidation period. I choose my share size and stop loss and profit target exit strategy.
3. When I see that the price is holding support at point C, I enter the trade close to the price of point C in anticipation of moving forward to point D or higher. Point C can also be identified from a 1-minute chart. It is important to look at both time frames in order to gain a better insight.
4. My stop is the loss of point C. If the price goes lower than point C, I sell and accept the loss. Therefore, it is important to buy the stock close to point C to minimize the loss. Some traders wait and buy only at point D to ensure that the ABCD Pattern is really working. In my

opinion, that approach basically reduces your reward while at the same time increases your risk.

5. If the price moves higher, I sell half of my position at point D, and bring my stop higher to my entry point (break-even).
6. I sell the remaining position as soon as my target hits or I sense that the price is losing steam or that the sellers are acquiring control of the price action. When the price makes a new low on my 5-minute chart, it is a good indicator that the buyers are almost exhausted.

Reverse ABCD Pattern

The Reverse ABCD Pattern is a mirror image of the ABCD Pattern but for selling short instead of going long. Thus all of the rules and tactics apply equally to both patterns.

To demonstrate a Reverse ABCD Pattern, let's review Figure 6.19, a trade I took on Amicus Therapeutics, Inc. (ticker: FOLD) on October 4, 2017. At the Open, the stock sold off heavily and from $16.50 (point A) made a low of the day of $15.63 (point B). FOLD later consolidated between the low of the day and the $16.08 level that I had identified in the pre-market. As soon as FOLD started toward the then low of the day of $15.63 (point B), and to make a new low of the day (point D), I went short and covered toward the 200 SMA on my 5-minute chart for a nice $595 profit. The stop loss in this case was a new 5-minute high or break of $16.08 (which so far had acted as a resistance level).

Figure 6.19 - Reverse ABCD Pattern on FOLD.

Strategy 3: Bull Flag / Bear Flag

The Bull Flag Strategy is essentially an ABCD Pattern, but the term is used by some traders mostly on low float stocks under $10 (Chapter 3). I made it a different strategy in this and my previous book in order to emphasize the differences. All of the tactics are essentially the same as for the ABCD Pattern. The only real difference between these two strategies is the duration of the trade. Bull Flags often happen much faster, and the trades are very volatile, and therefore it is more difficult to manage the risk. It definitely requires a fast execution platform and a quick decision-making process. I always encourage new traders to avoid trading low float stocks at the beginning of their career.

Figure 6.20 - Example of a Bull Flag formation with one consolidation period on CBIO. The Bull Flag can be seen on both the 1-minute and 5-minute charts.

This pattern, shown above in Figure 6.20, is named Bull Flag because it resembles a flag on a pole. In Bull Flag, you have one or several large candles going up (like a pole), and you also have a series of small candles moving sideways (like a flag), or, as we day traders say, “consolidating”. Consolidation means that the traders who bought stocks at a lower price are now selling and taking their profits. Although that is happening, the price does not decrease sharply because the buyers are still entering into trades and the sellers are not yet in control of the price. Many traders who missed buying the stock before the Bull Flag started will now be looking for an opportunity to take a trade. As soon as the price starts breaking up in the consolidation area with heavy volume, you can begin going long. Patience truly is a virtue.

But how do you find a Bull Flag? Our community uses a simple yet effective scanner in Trade Ideas that shows us low float stocks that make a new high of the day. Usually, the running up phase (pole phase) is the time that a stock will also make a new high of the day. So, by just scanning for stocks that make a new high of the day with heavy relative volume, it is possible to find Bull Flags before their consolidation period.

When a low float stock hits your scanner, you should not just jump into the trade. Wise traders know that it is risky to buy a stock when the price is “running up”. That’s called *chasing the stock*. Professional traders aim to enter the trade during quiet times and take their profits

during the volatile times. That is the total opposite of how amateurs trade. They jump in or out when stocks begin to run, but grow bored and lose interest when the prices are, shall I say, sleepy. Chasing the stocks is an account killer for beginners.

Figure 6.21 - Example of my New High of the Day Scanner.

For example, let's review the scanner alert of March 13, 2018 for Proteostasis Therapeutics, Inc. (ticker: PTI). As shown in Figure 6.21, the first alert hit my scanner at 9:43:12 a.m. When this happens, you should check your charts and wait for an excellent opportunity. Just because an alert hits your scanner does not mean the stock is suitable at that moment for trading. In fact, 95% of my scanner alerts are generally not tradeable; only 5% provide an excellent risk/reward opportunity. Experienced traders will wait until they can find a solid consolidation. Your goal is to enter the trade at a breakout with volume. In this instance, it took about 12 minutes. The true breakout happened at 9:55:10 a.m. when PTI moved from $6.90 to over $7.20 with heavy volume, as shown in Figure 6.22. The volume of shares traded is significantly higher after consolidation, which is a confirmation for a long entry.

Figure 6.22 - Scanner alert on PTI and accompanying 1-minute chart.

Usually a Bull Flag will show several consolidation periods. I only enter in during the first and second consolidation periods. Third and higher consolidation periods are risky because the price has probably been very extended in a way that indicates that the buyers will soon be losing their control. Let's study an example in Figure 6.23 below, a Bull Flag on RIGL on August 30, 2016.

Figure 6.23 - Example of Bull Flag formation with two consolidation periods on RIGL.

This is an example of two Bull Flag Patterns. It is normally hard to catch the first Bull Flag, and you will probably miss it, but as explained above, your scanner should alert you to it so that you can be ready for the next Bull Flag.

My scanner showed RIGL at 12:36:15 p.m. As soon as I saw that, I realized that there was also a very high relative volume of trading (120 times the normal trading volume), which made this a perfect setup for day trading. I waited for the first consolidation period to finish and, as soon as the stock started to move toward its high for the day, I jumped into the trade. My stop loss was the breakdown of the

consolidation period. I marked my exit and entry in Figure 6.24 below.

Figure 6.24 - Entry, stop and exit for a Bull Flag Strategy on RIGL.

Another Bull Flag example can be seen on NVFY on April 6, 2017, as set out in Figure 6.25. You will notice that NVFY ran up at the Open making a strong move from $1.85 to over $2.30. It showed a consolidation for about 20 minutes and then eventually broke the consolidation with a new 5-minute high and heavy volume toward $2.60.

Figure 6.25 - Example of a Bull Flag on NVFY.

An additional Bull Flag example can be seen on AEZS on July 19, 2017, as set out in Figure 6.26. You will notice that AEZS ran up shortly after the Open and then showed a consolidation for about an hour before eventually breaking the consolidation with a new 5-minute high and heavy volume. Shortly after 12 noon, a second Bull Flag occurred which then broke free to make yet another new 5-minute high and again with heavy volume.

Figure 6.26 - Example of a Bull Flag on AEZS.

To be successful in trading this strategy, a perfect entry is essential. A bad entry will very likely create a bad risk/reward ratio, and will potentially cause a severe loss. To make a good entry when executing the Bull Flag Strategy, you must successfully recognize the consolidation period on both your 1-minute and 5-minute charts. If you cannot see clearly that the stock is consolidating or going up or selling off, then it is better to avoid trading the stock at that moment. It could mean that the stock is too choppy to trade.

After you successfully recognize the consolidation period, you need to look for new 1-minute and 5-minute highs with increasing volume. Sometimes a new 1-minute high shows a good entry, but often the best entry is when these two are together in a way so that a new 1-minute candlestick coincides with a new 5-minute high with heavy volume, as shown in Figure 6.27 re. AEZS and HMNY.

Figure 6.27 - Entry points for AEZS and HMNY are where both 5-minute and 1-minute charts make a new high (compared to previous candlesticks) with strong volume. Usually 1-minute

highs are easier to distinguish.

To summarize my trading strategy:

1. When I see a stock surging up (either on my real time New High of the Day Scanner or when advised by someone in our chatroom), I patiently wait until I can identify a clean consolidation period. I do not jump into the trade right away (you will recall that is the dangerous act of "chasing the stock") because I cannot put a proper stop loss if I am chasing the stock.
2. I watch the stock during the consolidation period. I choose my share size and stop loss and exit strategy.
3. As soon as prices are moving over the high of the consolidation candlesticks, I enter the trade. My stop loss is the break below the consolidation periods. The perfect entry is when both 1-minute and 5-minute charts make a new high at the same time (compared to previous candlesticks). It is therefore important when executing a trade in this strategy to be looking at both charts at the same time.
4. I sell half of my position and take a profit on the way up, usually with a break of the high of the day. I bring my stop loss from the low of the consolidation period to my entry price (break-even).
5. I sell my remaining positions as soon as my target hits or I sense that the price is losing steam and the sellers are gaining control of the price action.
6. If there is no profit target, you can look at your 1-minute or 5-minute chart and close your position when the price makes a new 1-minute or 5-minute low. This is ideally when the price will roll over and the trend will change.

If you look closely, the Bull Flag is essentially an ABCD Pattern that will happen more often on low float stocks. However, in a Bull Flag Strategy for stocks under $10, many traders buy only at or near the breakout (the opposite to how the ABCD Pattern is traded with medium float stocks). The reason for this is because moves in low float stocks are very fast and they will fade away very quickly. Therefore, Bull Flag is more or less a *Scalping Strategy*. Scalpers buy when a stock is running. They rarely like to buy during consolidation (during that waiting and holding phase). These types of stocks usually drop quickly and brutally, so it is important to jump in only when there is a confirmation of breakout. Waiting for the stock to break the top of a consolidation area is a way of reducing your risk and exposure time in low float stocks. Instead of buying and holding and waiting, which

increases exposure time, scalpers just wait for the breakout and then send their order. They get in, scalp, and get out quickly. That's the philosophy of momentum scalpers.

The Bull Flag Pattern is a long-based strategy that is found within an uptrend in a stock. A similar approach, the Bear Flag, can also be defined, but in reverse for short selling. I personally don't trade Bear Flag, because often my broker does not have low float stock shares available for short selling. In addition, short selling low float stocks is risky because of their potential to squeeze significantly to the upside.

Overall, trading low float stocks is very difficult and dangerous and beginners should be very careful if trading them. If you choose to, as I earlier cautioned, trade only in a small size and only after sufficient practice in your simulator. You will also need a super-fast execution system for trading these fast-moving stocks. Paradoxically, many beginners start with trading these low float stocks and are then forced to end their career before it even properly began.

I recommend new traders stay away from low float stocks, build their account and confidence with medium float stocks, and then slowly move toward trading low float stocks in small sizes. Remember, if you get caught on the wrong side of the trade in these low float stocks, it usually does not end well for your account.

Strategy 4: Opening Range Breakout

Another well-known trading strategy is the so-called Opening Range Breakout (ORB). This strategy signals an entry point, but does not determine the profit target. You should define the best profit target based on the other technical levels you learn from this book. Later on, you will notice that I list further possible profit targets. The ORB is an entry signal only, but remember, a full trading strategy must define the proper entry, exit and stop loss.

Right at the market Open (9:30 a.m. New York time), Stocks in Play usually experience violent price action that arises from heavy buy and sell orders that come into the market. This heavy trading in the first five minutes is the result of the profit or loss taking of the overnight position holders as well as new investors and traders. If a stock has gapped up, some overnight traders start selling their position for a profit. At the same time, some new investors might jump in to buy the stock before the price goes higher. If a stock gaps down, on the other hand, some investors might panic and dump their shares right at the Open before it drops any lower. On the other side, some institutions might think this drop could be a good buying opportunity and they will start buying large positions at a discounted price.

Therefore, there is a complicated mass psychology unfolding at the Open for the Stocks in Play. Wise traders sit on their hands and watch for the opening ranges to develop and allow the other traders to fight against each other until one side wins.

Typically, you want to give the opening range at least five minutes. This is called the 5-minute ORB. Some traders will wait even longer, such as 30 minutes or even one hour, to identify the balance of the power between the buyers and sellers. They then develop a trade plan in the direction of the 30-minute or 60-minute breakout. In the past, I only traded the trade at the 5-minute ORB, but recently I am more in favor of the 15-minute ORB or the 30-minute ORB. The longer the time frame, the less volatility you can expect, compared to the 5-minute range. As with most setups, the ORB Strategy tends to work best with mid to large cap stocks, which do not show wild price swings intraday. I do not recommend trading this strategy with low float stocks that have gapped up or down. Ideally, the stock should trade within a range which is smaller than the Average True Range of the stock (ATR). The upper and lower boundaries of the range can be identified by the high and low of the 5-, 15-, 30- or 60- minute candlesticks.

To gain a better understanding of this strategy, let's take a look at

Figures 6.28 and 6.29 for e.l.f. Beauty, Inc. (ticker: ELF) on March 9, 2017. ELF was on my Gappers watchlist that day, and had gapped up over 19% for good results. I decided to watch it closely to see if I could trade it on the short side. There was a good chance that many overnight investors and traders would try to sell their positions for profit. An overnight profit of 19% is very tempting for many investors. Why not take the profit?

Figure 6.28 - My Gappers watchlist on March 9, 2017 at 9 a.m. showing ELF may be a Stock in Play for that day.

As you can see in Figure 6.29 below, the stock opened at $31 and sold off heavily to below $30 in the first five minutes. That was the sign that investors were selling for profit after it had gapped up 19%. I waited for the first 5-minute battle of buyers and sellers to settle down. As soon as I saw that the price broke the 5-minute opening range, I went short below VWAP. As I mentioned before, ORB is a buy or sell signal, and you must define the proper exit and stop loss for it. For me, stop loss is always a close above VWAP for short positions, and a break below VWAP for long positions. The profit target point is the next important technical level.

As you can also see in Figure 6.29 below, I rode the wave down to the next daily level of $28.62 and covered my shorts at around that level.

Figure 6.29 - Example of the ORB Strategy on ELF 5-minute chart.

Another example could be Procter & Gamble Co. (ticker: PG) on February 15, 2017. The stock hit my Gappers Scanner, see Figure 6.30, and I had it on my watchlist at the Open.

Figure 6.30 - My Gappers watchlist on February 15, 2017 at 9 a.m. showing PG may be a Stock in Play for that day.

As you can see below in Figure 6.31, more than 2.6 million shares were traded in only the first five minutes of trading, but PG's price only moved from $89.89 to $89.94, a range of only 5 cents, while the Average True Range (ATR) of PG was $0.79. As I have mentioned, you need the opening range to be smaller than the daily ATR. If a stock moves near or higher than its ATR at the Open, it is not a good candidate for the ORB Strategy. It means that the stock is too volatile and without a catchable move. It is worth mentioning again that Stocks in Play move, and those moves are directional and catchable. If a stock constantly moves up and down $2 with high volume, but without any directional signal, you want to stay away from it. Those

stocks are usually being heavily traded by computers.

In the PG example, as soon as I saw that it broke the opening range to the upside, I went long and rode the wave up toward the next resistance level of $91.01. If there was no obvious technical level for the exit and profit target, you can exit when a stock shows signs of weakness. For example, if its price makes a new 5-minute low, that means weakness, and you should consider selling if you are long. If you are short and if the stock makes a new 5-minute high, then it could be a sign of strength and you may want to cover your short position. In this PG example, if you did not previously identify the $91.01 level, you could exit when PG made a new 5-minute low just below $91. I marked it for you in Figure 6.31 below.

Figure 6.31 - Example of the ORB Strategy on PG 5-minute chart.

To summarize my ORB Strategy:

1. After I build my watchlist in the morning, I closely monitor the shortlisted stocks in the first five minutes after the Open. I identify their opening range and their price action. How many shares are being traded? Is the stock jumping up and down or does it have a directional upward or downward movement? Is it high volume with large orders only, or are there many orders going through? I prefer stocks that have high volume, but also with numerous different orders being traded. If the stock has traded 1 million shares, but those shares were only ten orders of 100,000 shares each, it is not a liquid stock to trade. Volume alone does not show the liquidity; the number of orders being sent to the exchange is as important.
2. The opening range must be significantly smaller than the stock's Average True Range (ATR). I have ATR as a column in my Trade Ideas scanner.
3. After the close of the first five minutes of trading, the stock may continue to be traded in that opening range in the next five minutes. But, if I see the stock is breaking the opening range, I enter the trade according to the direction of the breakout: long for an upward breakout and short for a downward move.
4. My stop loss is a close below VWAP for the long positions and a break above VWAP for the short positions.
5. My profit target is the next important technical level, such as: (1) important intraday daily levels that I identify in the pre-market, (2) moving averages on a daily chart,

and/or (3) previous day close.

6. If there was no obvious technical level for the exit and profit target, I exit when a stock shows signs of weakness (if I am long) or strength (if I am short). For example, if the price makes a new 5-minute low, that means weakness, and I consider selling my position if I am long. If I am short and the stock makes a new 5-minute high, then it could be a sign of strength and I consider covering my short position.

My strategy above was for a 5-minute ORB, but the same process will also work well for 15-minute or 30-minute ORBs.

Strategy 5: VWAP Trading

What is VWAP?

Volume Weighted Average Price, or VWAP, is the most important technical indicator for day traders. VWAP is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

I will skip explaining VWAP in mathematical terms, but essentially, VWAP is a moving average that takes into account the volume of the shares being traded at any price. Other moving averages are calculated based only on the price of the stock on the chart, but VWAP also considers the number of shares in that stock that are being traded on every price. Your trading platform should have VWAP built into it and you can use it without changing any of its default settings.

VWAP is an indicator of who is in control of the price action - the buyers or the sellers. When a stock is traded above the VWAP, it means that the buyers are in overall control of the price and there is a buying demand on the stock. When a stock price breaks below the VWAP, it is safe to assume that the sellers are gaining control over the price action.

VWAP is often used to measure the trading performance of institutional traders. Professional traders who work for investment banks or hedge funds and need to trade large numbers of shares each day cannot enter or exit the market by just one single order. The market is not liquid enough for the trader to enter a one million share buy order. Therefore, they need to liquidate their orders slowly during the day. After buying or selling a large position in a stock during the day, institutional traders compare their price to VWAP values. A buy order executed below the VWAP would be considered a good fill for them because the stock was bought at a below average price (meaning that the trader has bought their large position at a relatively discounted price compared to the market). Conversely, a sell order executed above the VWAP would be deemed a good fill because it was sold at an above average price. Therefore, VWAP is used by institutional traders to identify good entry and exit points.

Institutional traders with large orders try to buy or sell large positions around VWAP. The performance of institutional traders is often evaluated based on what price they fill their large orders at. Traders who buy significantly higher than VWAP may be penalized because they cost their institution money for taking that large position.

Institutional traders therefore try to buy below or as close to VWAP as possible. Conversely, when a professional trader has to get rid of a large position, they try to sell at the VWAP or higher. Day traders who know this may benefit from this market activity.

After the market opens, the Stock in Play will trade heavily in the first five minutes, often at or around the VWAP. If the Stock in Play has gapped up, some individual shareholders, hedge funds or investment banks may want to sell their shares as soon as possible for a profit, before the price drops. At the same time, some investors wanting to take positions in the stock want to buy as soon as possible, before the price goes even higher. Therefore, in the first five minutes, an unknown heavy trading is happening between the overnight shareholders and the new investors. Scalpers usually ride the momentum right at the Open. After volatility decreases around ten to fifteen minutes into the Open, the stock will move toward or away from the VWAP. This is a test to see if there is a large investment bank waiting to buy or sell. If there is a large institutional trader aiming to buy a significant position, the stock will pop over the VWAP and move even higher. This is a good opportunity for us day traders to go long.

Conversely, if there are large shareholders wanting to get rid of their shares, then this is a good point for them to liquidate their positions. They start selling their shares at the VWAP. The price will reject the VWAP and start to move down. This is an excellent short selling opportunity for day traders. If there is no interest in the stock from market makers or institutions, the price may trade sideways near VWAP. Wise traders will then stay away from that stock.

Trading based on VWAP can be very easy for beginner traders to master because so many traders study the VWAP and make decisions based on it. Therefore, a beginner trader can easily be on the right side of the trade. When a stock tries to break the VWAP but cannot, you can short the stock because you can safely assume that the other traders that are watching will also begin to short. A trading strategy based on VWAP is a simple and easy strategy to follow. I usually short stocks when traders try but fail to break the VWAP on 5-minute charts.

Let's have a look now at Figure 6.32 which documents a trade that I took on SolarCity Corporation (ticker: SCTY) on June 24, 2016.

Figure 6.32 - Example of a long VWAP Strategy on SCTY.

At around 10:30 a.m. on June 24, 2016, I noticed that SCTY had found a support above VWAP at around $21. I purchased 1,000 shares of the stock with the anticipation of moving toward $22 with VWAP

as a support. My stop was a 5-minute candlestick close below VWAP. I first sold a half-size position at $21.50, and then moved my stop to break-even. I sold another position at $22 because I know half-dollars (such as $1.50, $2.50, $3.50) and whole dollars ($1, $2, $3) usually act as a support and resistance level.

VWAP also works well when you want to short stocks. Let's have a look at Figure 6.33, which documents another trade that I took on SCTY, this time on June 22, 2016, and this time on the short side.

Figure 6.33 - Example of a short VWAP Strategy on SCTY.

At around 11 a.m., I noticed that SCTY had faced a resistance over VWAP. I shorted the stock with the anticipation of losing the VWAP at around $23. At around 12 p.m., the buyers gave up and the sellers took control of the price action. I had a nice run down to $22 and covered my shorts at $22 for a good $1,000 profit.

The above examples clearly demonstrate how VWAP is one of the most important indicators for day trading. Do note though that VWAP is only an intraday indicator; VWAP has no meaning on daily or weekly charts.

You may correctly ask then, how do I use VWAP for day trading? I use VWAP as an important support and resistance level for entry and stop loss levels as well as for profit target. I also have three strategies based on VWAP which I will explain below: (1) VWAP False Breakouts, (2) VWAP Reversals, and (3) VWAP Moving Average Trend.

VWAP False Breakout

My favorite trading strategy is the so-called VWAP False Breakout. VWAP False Breakouts will usually occur in the Late-Morning session, after 10:30 a.m., and continue on into the early afternoon. As shown in Figure 6.32, a strong Stock in Play will stay and trade above VWAP if there is buying pressure from institutional traders. If a large investment bank is interested in taking the position, a stock will often stay above VWAP and keep moving above VWAP, such as shown in Figure 6.32 on SCTY. But if there are no large institutions behind the stock, or if they fill all of their orders and are gone in the morning session, then the stock will move back to VWAP and often “lose it”, meaning it will drop and trade below the VWAP. This is a sign for short sellers to start shorting it.

A stock that has lost its big buyers during the morning session and has lost the VWAP is like a strong but bleeding buffalo that now has run out of breath. The wolves will patiently bide their time, waiting and watching, ready for the final ambush. Similarly, day traders can

"smell the blood" as soon as a strong Stock in Play that has been above the VWAP suddenly loses the VWAP. Short sellers then will go after the stock to short it.

Continuing with the same example, day traders look for weak stocks to sell short like scavenging vultures waiting for the wolves to be finished feasting on that unfortunate buffalo. On the other hand, when a weak stock below the VWAP is coming back up and gains toward and above the VWAP and beyond, short sellers desperately have to cover. Smart day traders chase the fleeing shorts by going long to ride the momentum and "squeeze the shorts".

Let's review Figure 6.34, the trading behavior of AAOI on April 19, 2017. As you can see, the stock opened weak and sold below the VWAP toward a daily level of $43.61. After bouncing back from that resistance level three times, it eventually traded above VWAP from around 11:45 a.m. to 12:15 p.m. However, AAOI was not strong enough to stay above the VWAP and establish a moving average uptrend above it. It therefore bounced back from the previous day close of $44.20 (as you will recall from Chapter 4, the previous day close can be a very strong support and resistance level) and then lost the VWAP and traded below the VWAP again. That VWAP False Breakout signals a trading opportunity to go short below the VWAP, for example around $43.75, with a stop loss above VWAP. The first profit target could be the new low of the day, and then later the next daily level of $43.21, as marked in Figure 6.34.

Figure 6.34 - Example of VWAP False Breakout on AAOI.

Another example can be seen in Figure 6.35, showing trading on May 12, 2017 for the American giant department store chain Nordstrom, Inc. (ticker: JWN). As you can see, JWN opened weak and sold below the VWAP toward a daily level of $41.52. After bouncing back from that resistance level, it bounced back to above VWAP and traded above the VWAP from around 10:05 a.m. to 10:45 a.m. However, JWN was not strong enough to stay above the VWAP to establish a moving average uptrend. It bounced back from the very strong resistance level of 50 Simple Moving Average (50 SMA) and lost the VWAP. That could signal a trading opportunity to go short below the VWAP, for example around $42.20, with a stop loss above VWAP. The first profit target could be when JWN made a new low of the day, and then later the next daily level of $41.52, as marked in Figure 6.35.

Figure 6.35 - Example of VWAP False Breakout on JWN.

Continuing with this discussion of American retail stores, let's review

Figure 6.36, the trading of Target Corporation (ticker: TGT) on May 17, 2017. TGT gapped up in the pre-market because of a good earnings report, but opened really weak and sold off below the VWAP toward $55.50, perhaps because of the heavy profit taking of investors and overnight swing traders. However, buyers jumped in at around 10 a.m. and TGT bounced back strongly after formation of a strong Bullish Engulfing Pattern (Chapter 5) and traded above VWAP from around 10:05 a.m. to 10:30 a.m. TGT was not strong enough though to stay above VWAP to establish a moving average uptrend. It quickly sold off and lost the VWAP. That could signal a trading opportunity to go short below VWAP, for example around $56.13, with a stop loss above the VWAP. The first profit target could be when TGT made a new low of the day, and then later the 200 SMA on the 5-minute chart, as it in fact did sell off toward by 1:35 p.m., as marked in Figure 6.36.

Figure 6.36 - Example of VWAP False Breakout on TGT.

Another clear VWAP False Breakout example is shown in Figure 6.37 for Adobe Systems Incorporated, the American computer software company (ticker: ADBE), on June 21, 2017. ADBE opened strong and squeezed above the VWAP, but the buyers lost the battle and it closed below the VWAP. The sellers initially took control of the price and pushed the price to the low of the day of $144.23. However, ADBE reversed back toward the VWAP and traded above it from 10 to 10:30 a.m. At around 10:30 a.m., the price bounced back from 20 EMA to below the VWAP. I took the trade short below the VWAP with a stop loss above it. The first profit target was the then low of the day of $144.23 and the final profit target was 200 SMA on the 5-minute chart. I was not patient enough for that profit target, but later at around 12:25 p.m., it hit the 200 SMA at around $143.50.

Figure 6.37 - Example of VWAP False Breakout on ADBE.

Another perfect illustration is shown in Figure 6.38 for the famous retailer, Bed Bath & Beyond Inc. (ticker: BBBY) on June 23, 2017. Can you identify the VWAP False Breakout?

Figure 6.38 - Example of VWAP False Breakout on BBBY.

Another perfect example can be seen in Figure 6.39, the trading behavior of Alcoa Corporation (ticker: AA) on January 18, 2018 when AA squeezed above VWAP two times: one at around 10:05 a.m. and the other at about 10:45 a.m. Both breakouts failed to break the 50 SMA on the 5-minute chart and bounced back below the VWAP,

providing a short selling opportunity. The first VWAP False Breakout did not reach to the by then low of the day of $52.10 (which also was the low of the pre-market). The second VWAP False Breakout made an excellent short from VWAP to the new low of the day and below that.

Figure 6.39 - Example of VWAP False Breakouts on AA.

To summarize my trading strategy for VWAP False Breakouts:

1. Once I've made my watchlist for the day, I monitor the price action around VWAP at the Open and during the morning session for the Stocks in Play. A good Stock in Play shows respect toward VWAP.
2. If the Stock in Play sells off below the VWAP but bounces back and breaks out above the VWAP, it means the buyers are gaining control and short sellers perhaps had to cover. However, if it loses the VWAP again in the Late-Morning (from 10:30 a.m. to 12 p.m.), it means that this time the buyers were mostly weak or exhausted. This provides a short opportunity with a stop loss above VWAP.
3. The profit target can be the by then low of the day, or any other important technical level.
4. I try to go short when a Stock in Play has lost the VWAP. Sometimes I go short before the price loses the VWAP, to get a good entry while it is ticking down toward VWAP in the anticipation of a VWAP loss. However, be very careful, for the job of a trader is identification and not anticipation. Take small size and add more shares on the way down if you have truly identified a good trading setup.

VWAP Reversals

Stocks in Play usually trade heavily at the Open and establish an Opening Range Breakout. They either move toward a new low of the day or stay strong above the VWAP and make a constant high of the day. However, they will also often reverse and test the VWAP. This strategy is called the VWAP Reversal and can be traded both on the long side and on the short side.

Let's look at Figure 6.40, showing the trading behavior of JD.com, Inc. (ticker: JD) on November 13, 2017. JD opened strong, but suddenly sold off heavily at 9:35 a.m. with a big Bearish Engulfing Pattern. It did sell off heavily below the VWAP until 9:50 a.m. At 9:50 a.m., it failed to make a new 5-minute low and the trend changed. This is the

time that a Stock in Play will often bounce back and test the VWAP, making it a great candidate for a VWAP Reversal trade. I took the trade to the long side at around $41.15 and rode the momentum toward and above the VWAP.

But why does a stock reverse back to the VWAP? In this case, many short sellers were still hoping that the stock would go lower, but if it doesn't, all of those short sellers will need to cover fast, causing the price to squeeze back up really fast. We call this "squeezing the shorts". If you have taken JD short at an Opening Range Breakout, you want to make sure to take proper profit and not let the trade go against you. This is because if you stay short while the 5-minute trend changes (such as failing to make a new 5-minute low, or establishing a higher highs and higher lows), then you may get squeezed.

What is the signal of a reversal? Usually, if a stock fails to make a new 5-minute low, that will be a sign of reversal. Or, even better, if the price starts to make higher highs and higher lows on a 5-minute chart, it means the sellers are exhausted and the price will bounce back toward VWAP.

Similar to all other trading strategies, there are also times that this strategy will not work. For example, the price might go against you and make a new low of the day. Therefore, it is important when trading this strategy, as it is for all strategies, that you define a proper stop loss. If you take the trade to the long side, you can define a stop loss just below the low of the day or the previous 5-minute candlestick low. For the profit target, the first target can be 9 or 20 EMA if there is any and, if not, you can cover VWAP. I always keep some of my position available for a squeeze above VWAP.

Figure 6.40 - Example of VWAP Reversal on JD.

Another example is a trade I took on Dollar Tree, Inc. (ticker: DLTR) on March 7, 2018. DLTR sold off heavily below the VWAP but stalled at around a resistance level of $88.10 and failed to make a new low. I took the trade long at $88.60, with the profit target of VWAP around $89.70, for a decent profit of $409 with 400 shares, as shown in Figure 6.41. In this case, looking at my 1-minute chart helped me to get a better entry after DLTR closed above 9 EMA on the 1-minute chart.

Figure 6.41 - Example of VWAP Reversal on DLTR.

Another example can be seen on Alcoa Corporation (ticker: AA) on

January 18, 2018. AA sold off heavily below the VWAP, but stalled at around the $52.10 resistance level, and failed to make a new low. Interestingly, $52.10 was also the pre-market low. Not only did AA fail to make a new low, but its trend on my 5-minute chart reversed and became bullish, making higher highs and higher lows. A great entry could be found by looking at my 1-minute chart when the stock closed above 9 EMA on that 1-minute chart, with a stop loss below the low of the day and a profit target of VWAP around $52.80. A risk/reward ratio of around 2 could be expected, all as shown in Figure 6.42.

Getting an excellent entry and favorable risk/reward is extremely important in this strategy. Often, many Stocks in Play will reverse back to the VWAP, but these moves are not catchable, they happen so fast and so strong that you cannot really get a good entry with a proper risk/reward. Remember, you should not be in all of the moves, nor should you try to catch all of them. If a Stock in Play makes a great reversal but does not offer a good entry, it is better not to be in it. I often in the chatroom call some trends and moves correctly, but I will not take them myself. People wonder about that, and my response is always the same. Even if it is obvious what direction a stock will move in, if I cannot get a good entry, I will pass on it. And so should you.

Figure 6.42 - AA VWAP Reversal on both 5-minute and 1-minute charts with risk/reward analysis on 1-minute chart.

Another example can be seen on Energous Corporation (ticker: WATT) on January 2, 2018, as set out in Figure 6.43. WATT sold off heavily below the VWAP at 9:30 a.m. but stalled and could not make a new 5-minute low between 9:35 and 9:40 a.m. Looking at my 1-minute chart, I saw that a good long entry around $21 was possible when a new 1-minute high was made for a move toward VWAP at around $22. WATT actually squeezed really hard above the VWAP toward $23.60. It is good to take some profit at the VWAP and let some of the position run above the VWAP as well. If there is an obvious level above the VWAP, such as the moving average of daily levels, it is safe to assume that the stock might test those levels as well.

Figure 6.43 - Example of VWAP Reversal on WATT.

So far, my examples have been for stocks that made a reversal below the VWAP. A similar pattern can happen when the stock is above the VWAP at the Open but fails to make a new high of the day or a new 5-minute high. This provides a short selling opportunity toward the

VWAP as shown in Figure 6.44 for the financial services and mobile payment company Square, Inc. (ticker: SQ). As you can see in Figure 6.44, SQ had a nice run at the Open toward $36.90 but failed to make a new high. This can provide a short selling opportunity toward VWAP.

Figure 6.44 - Example of VWAP Reversal on SQ.

Another perfect illustration of this can be seen in the trading behavior of Signet Jewelers Limited, the world's largest retailer of diamond jewelry (ticker: SIG), as set out in Figure 6.45. The stock made a strong move at the Open toward $57.80 but failed to hold those highs and started to make lower lows on my 5-minute chart. This signaled to me a great short selling opportunity. I went short at $57.10 with a stop loss above the high of the day with the profit target of VWAP and below. SIG sold off toward the high of the day. The first target could have been to cover my short at the VWAP.

Figure 6.45 - Example of VWAP Reversal on SIG.

The second target could have been 20 EMA on my 5-minute chart and later 50 SMA on the 5-minute chart. That is why I encourage traders to cover the first part of their position at the VWAP, bring the stop loss to break-even and then wait for the next move. As you can see in this example, SIG actually sold off from $57 to below $54, at around 200 SMA, on my 1-minute chart.

To illustrate the importance of having several profit targets, let's take a look at Figure 6.46, a trade I managed badly on the American food and beverage company, and the largest dairy company in the United States, Dean Foods Company (ticker: DF). DF opened weak and sold off below the VWAP, but failed to make a new 5-minute low for a 5-minute Opening Range Breakout. I decided to go long at $8.40 and added more at $8.45 for the pop above the VWAP. I got cold feet and sold too early for a very small profit, but as you can see, DF squeezed above the VWAP and hit 9 EMA and 20 EMA. I did not trade it well, but a great trade would have been:

- Long at $8.45 with the signal of a failure to make a new low on my 5-minute chart
- Stop loss below the low of the day
- First target: VWAP at around $8.55
- Second target: 9 EMA on my 5-minute chart
- Third target: 20 EMA on my 5-minute chart

Figure 6.46 – Example of DF VWAP Reversal with several profit

targets.

I unfortunately could not execute this trade well and missed the move. As I mentioned above, when I went long, I sold my position too early because I simply got cold feet and did not stick to my initial trading plan.

Another illustration of a VWAP Reversal with several profit targets can be seen in the May 11, 2018 trading behavior of the American software company Symantec Corporation (ticker: SYMC), as set out in Figure 6.47. The stock sold off at the Open toward $18.75 but failed to make a new low on my 5-minute chart. This signaled to me a great long opportunity. I went long at $19.21 with a stop loss below the low of the previous 5-minute candlestick at around $19 with the first profit target of VWAP. The other profit targets were 20 EMA on my 1-minute chart and also 20 EMA on my 5-minute chart. I sold my long position on the way up. Although SYMC did break above 20 EMA on the 1-minute chart, it never reached 20 EMA on the 5-minute chart. I sold the last part of my long position when the stock sold off back toward VWAP for a total profit of $1,539, all as shown in Figure 6.47.

Figure 6.47 – Example of SYMC VWAP Reversal with several profit targets.

Another VWAP Reversal example can be seen in my trading of VIP.com, the Chinese e-commerce discount sales company Vipshop Holdings Limited (ticker: VIPS), as set out in Figure 6.48. I made two trades on it on May 15, 2018.

In the first trade, the stock sold off heavily at the Open toward $11.80 but failed to make a new low on a 5-minute chart. This signaled to me a great long opportunity. I went long at $12.10 with a stop loss below the low of the previous 5-minute candlestick at around $11.95 with the first profit target of VWAP. I sold some at the VWAP and waited to see if VIPS would squeeze above the VWAP toward 9 and 20 EMA on my 5-minute chart. It did make a new 5-minute low and I got out the last of my position at break-even. But that turned out to be only a whipsaw, and I went back long again above VWAP at $12.21 with a profit target of 200 SMA on my 1-minute chart and I sold toward the target for a nice profit. The total profit of those two trades was $1,249, as also shown in Figure 6.48. As a side note, just in case you have not previously come across the term in relationship to day trading, whipsaw describes what happens when the price of a stock is moving in one direction and then quickly reverses and heads in the other direction.

Figure 6.48 – Example of VIPS VWAP Reversal with several profit targets.

To summarize the VWAP Reversal Strategy:

1. After I build my watchlist in the morning, I closely monitor the shortlisted stocks in the first five minutes after the Open. I identify their opening range and their price action. The stocks will either move higher or below the VWAP. Depending on the price action, I may be able to take an Opening Range Breakout to the long or short side.
2. I monitor the price when it moves away from the VWAP and look for a sign of weakness. If it is above the VWAP, failing to make a new high of the day may be a sign that the buyers are exhausted. If it is below the VWAP, failing to make a new low of the day or a new 5-minute low can be a sign that the sellers are gone, and the stock can be ready for a squeeze back to the VWAP.
3. I take the trade only if I can get a good entry and a good risk/reward ratio. Remember, most of the time stocks move really fast without offering a good entry and a good risk/reward ratio.
4. If I am short above the VWAP, I cover my short at the VWAP and bring my stop loss to break-even. If I am long below the VWAP, I sell part of my position at the VWAP, and keep the rest for a squeeze above the VWAP (or as some traders would call it, a VWAP Pop). Do ensure you bring your stop loss to break-even, because sometimes the stock can bounce back from the VWAP as well.

I will emphasize again: for every trade you need to find a good entry with a favorable risk/reward ratio. You won't always find one. To illustrate this point, let's review a trading session for Deere & Company, AKA John Deere, the famous manufacturer of agricultural, construction, and forestry machinery (ticker: DE), as set out in Figure 6.49. DE sold off heavily at the Open from the VWAP to $142.25 at 9:50 a.m. At 9:55 a.m., it failed to make a new low and bounced back toward the VWAP. However, I had to wait from between 9:50 a.m. to 9:55 a.m. for the candlestick to close to ensure that it would not make a new low. You cannot assume that a candlestick will not make a new low until it closes. But in this instance, when it closed, it had formed a bullish engulfing candlestick. Although it was bullish, the next candlestick between 9:55 a.m. and 10 a.m. was so far from the low of the day and so close to the VWAP that the risk/reward ratio was no longer worth it. If the 9:55 a.m. to 10 a.m. candlestick had come lower, closer to the low of the day, then I could have gone long with a better risk/reward ratio. I waited, but I never got a good entry. I did not take the trade.

Figure 6.49 – Risk/reward reversal analysis on DE.

VWAP Moving Average Trend

Bull Flags, the ABCD Pattern and Opening Range Breakouts happen at the Open. VWAP Reversals happen later in the Open and in the Late-Morning, and VWAP False Breakouts mostly occur in the Late-Morning session and into the early afternoon. But what happens to Stocks in Play during the rest of the trading day following the morning session? The answer is that often Stocks in Play will find a trend and stay above the VWAP and move higher, or they will stay below it and move lower, using moving averages as their guide.

Different traders and educators have different names for this strategy: *Trend Trading, Moving Average Trend Trade, Trend Continuation Pattern, Trade2Hold, All Day Fade* and so on. They are essentially the same strategy.

Although some Stocks in Play stay choppy around the VWAP for the entire day, most of the Stocks in Play often move during the day after "losing" or "holding" VWAP, and these moves are catchable by looking at 1-minute and 5-minute 9 EMA and 20 EMA during the Late-Morning session (around 11 a.m. New York time). Some traders use these moving averages as potential entry and exit points for day trading as they see their moving averages on 1-minute and 5-minute charts as a type of moving support and resistance line. Traders can benefit from this behavior and ride the trend along the moving average (on top of the moving average for going long or below the moving average for short selling).

As I explained in Chapter 2 about my indicators, I use 9 and 20 Exponential Moving Averages (EMA) and 50 and 200 Simple Moving Averages (SMA). Your charting software or trading platform will have most of the moving averages built into it. They are ready to be used and there is no need to change the default setting in them.

Let's take a look at the chart below for AAOI on April 19, 2017, marked as Figure 6.50, to see how you could trade based on moving averages and a loss of VWAP on a 5-minute chart.

Figure 6.50 - Example of a short VWAP Moving Average Trend Strategy on AAOI on a 5-minute chart.

As you can see, in the Late-Morning, just before noon, there was a VWAP False Breakout. Later, around 12:30 p.m., AAOI tried to push back above the VWAP but both times "failed", and then lost the VWAP around 1 p.m. AAOI had no place to go except lower. A nice trade was

established at around 1 p.m. by going short below VWAP and putting a stop loss above the break of the moving averages. VWAP Moving Average Trends can happen in any intraday time frame. As a general rule, I monitor the prices on both my 1-minute and 5-minute charts and make my trades based only on those two time frames.

Let's take a look now at Figure 6.51, which is another VWAP Moving Average Trend Strategy, but this time on Facebook, Inc. (ticker: FB) on a 5-minute chart on March 21, 2018. Facebook became a Stock in Play after March 20, 2018 because of the shocking news that Cambridge Analytica, a data analytics firm that worked with many political campaigns, had extracted Facebook data from well over 50 million user accounts, with Facebook's knowledge, and then for several years used that data for political campaigns. Wall Street reacted to this news and the company lost $50 billion in market value in the first two trading days after the news broke out. Mark Zuckerberg, the CEO of Facebook, acknowledged there was *"a breach of trust between Facebook and the people who share their data with us"*.

Figure 6.51 - Example of a short VWAP Moving Average Trend Strategy on FB on a 5-minute chart.

The same pattern can be seen on the 1-minute chart for FB as shown in Figure 6.52. As you can see, the stock held at both 9 EMA and 20 EMA as support. I often put more emphasis on 20 EMA than 9 EMA. I marked moving averages on the chart, but they are easy to recognize. The smaller the moving average, the more frequently it will touch the price. The closest moving average on a chart is 9 EMA, as it "hugs" the price more frequently. You will often notice that a price will break 9 EMA but then will bounce back on 20 EMA.

Figure 6.52 - Example of a short VWAP Moving Average Trend Strategy on FB on a 1-minute chart.

Another example can be seen on Nordstrom, Inc. (ticker: JWN). As you can see in Figure 6.53, at around 11:30 a.m., JWN lost the VWAP and started going lower. It did break 9 EMA on a 5-minute chart in a few places, but it never lost the 20 EMA, and it moved down from $42.20 to close at $41. This example is interesting because you can also see many of the earlier strategies I've discussed. It had a nice Opening Range Breakout below VWAP, followed by a reversal back to VWAP, and then it went above VWAP. It later lost the VWAP and formed a VWAP False Breakout. And still later, it "lost" VWAP for the entire afternoon.

Figure 6.53 - Example of a VWAP Moving Average Trend Strategy on JWN.

Another fantastic example is shown in Figure 6.54 below, a 9 EMA and 20 EMA VWAP Moving Average Trend trade on a 5-minute chart for TGT on May 17, 2017. On that day, TGT sold off of a VWAP False Breakout at $56.38 to fall toward $55 at the Close. The 9 EMA held as a strong resistance. A great trade would have been a short sell on TGT with a stop loss of the break of 9 or 20 EMA. As you can see, the price did push above 20 EMA in some places but no candlestick really closed above 9 or 20 EMA. Experienced traders wait for a 5-minute candlestick to "close" above 20 EMA before they get out. A sudden break of 9 or 20 EMA with low volume may not be a good indicator of a trend coming to an end. I have found that 20 EMA is a more powerful resistance than 9 EMA for these type of trend plays.

Figure 6.54 - Example of a VWAP Moving Average Trend Strategy on TGT.

Another example can be seen for The Trade Desk, Inc. (ticker: TTD) on May 12, 2017 after the release of a great earnings report, as set out in Figure 6.55. TTD squeezed above the VWAP in the morning session and then stayed above the VWAP and 9 EMA, providing for an excellent VWAP Moving Average Trend trade during the day, as its price moved from $47 to $53.

Figure 6.55 - Example of a VWAP Moving Average Trend Strategy on TTD.

Another example can be seen in Figure 6.56 for GoPro, Inc. (ticker: GPRO) on September 21, 2017 after a disappointing earnings report. GPRO lost the VWAP in the morning session at around 10:30 a.m., and in the Late-Morning it tried to break above the VWAP but could not. At around 12:30 p.m. it was obvious that buyers were exhausted (otherwise it would have been squeezed above the VWAP by then). When GPRO failed to break above 9 and 20 EMA, you could have gone short with a stop loss above the VWAP or the break of 20 EMA. GPRO lost value all of that day, going from $11.25 at the VWAP to $10.94 later in the afternoon.

Figure 6.56 - Example of a VWAP Moving Average Trend Strategy on GPRO.

To summarize my trading strategy for VWAP Moving Average Trend trading:

1. When I am monitoring a Stock in Play and notice a trend is establishing around a moving average (usually 9 EMA) in the Late-Morning session, I consider VWAP Moving Average Trend trading. If the stock has already lost the VWAP (from a VWAP False Breakout), it most likely will stay below the VWAP. Similarly, if the stock squeezed above the VWAP in the Late-Morning session, it is most likely that it will stay above the VWAP, as it means the buyers are in control.
2. Once I learn that either 9 or 20 EMA are acting as either a support or resistance, I buy the stock after confirmation of moving averages as a support, but only if I can clearly see it "held" the VWAP. Similarly, I go short below the moving averages if I have the confirmation that it has "lost" the VWAP in the Late-Morning session.
3. I buy or sell short as close as possible to the moving average line (in order to have a small stop). My stop will usually be 5 to 10 cents below the moving average line or, if a candlestick, close below the moving average (for long positions). For short positions, a close above the moving average would stop me out.
4. I ride the trend until the break of 9 or 20 EMA. Usually, 20 EMA is a stronger support or resistance, so it is better to wait for that.
5. I usually do not use trailing stops and I constantly monitor the trend with my eyes, but I know that many traders also use trailing stops.
6. If the stock is moving really high away from the moving average, offering me an equally really nice unrealized profit, I may take some profit, usually at the 1/4 or half-position. I do not always wait until the break of moving average for my exit. Traders will say: you can never go broke by taking good profits. If the price pulls back to the moving average, I may add again to my position and continue the VWAP Moving Average Trend trade.
7. Remember, when you take profit, you should always bring your stop loss to break-even. Never go red on a stock that you already booked some profit on.

I usually do not trade the VWAP Moving Average Trend Strategy, primarily because most of the time I am not trading in the afternoon. Often VWAP Moving Average Trend trades can last as long as several hours and that is too long for my personality. I prefer to take my

profit in a matter of minutes. I rarely will wait even an hour. Another reason that I do not often trade these strategies is that they usually best work during Mid-day and the Close. At the Open (in the morning session), when volatility is high, it's hard to identify a VWAP Moving Average Trend play, and you should not try to trade that. These slow trends are best identified during the Late-Morning and Mid-day, when there is low volatility, and they usually end near the Close (around 3 p.m. New York time), when the professional traders on Wall Street start to dominate the trading.

Having said that, a VWAP Moving Average Trend Strategy is an excellent trading strategy, because it usually does not require a very fast decision-making process and trade execution. It also often does not require the use of Hotkeys. You can enter the trades manually and still be successful. In addition, entry points and your stop loss can be clearly recognized from the moving averages on the charts. This is especially important for traders who pay high retail commissions (sometimes as high as $4.95/trade) and cannot scale in and out of trades without a high fee. The VWAP Moving Average Trend Strategy has clear entry and exit points, and usually a good profit can be made by only two orders, one for the entry and one for the exit.

As I have discussed, strategies depend on your account size, personality, psychology of trading and risk tolerance, as well as on your software and the tools and brokers that you have. The combination of all of these factors will help to define the type of trader that you are and the specific strategy (or strategies) that will serve you best. I want to emphasize that trading strategies are not something that you can imitate just from reading a book, speaking with a mentor, or attending a class. You have to slowly and methodically develop your preferred method and then stick with it. There is nothing wrong with any strategy if it works for you. There is no good and bad in any of these strategies; it truly is a matter of personal choice.

One Stock in Play, All Strategies

I categorize day trading sessions based upon the time of day: the Open, Late-Morning, Mid-day, and the Close. Each time period should be treated differently, and you have to be careful because not all strategies are effective in every time period. Good traders make note of what time of day their most profitable trades occur and adjust their trading and strategies to fit such times.

The Open tends to last about 30 to 60 minutes (from 9:30 up to 10:30 a.m. New York time).

- Bull Flag, ORB, ABCD, VWAP Reversals and Fallen Angel tend to be the best strategies for the Open.

During the Late-Morning (10:30 a.m. to 12 p.m.), the market is slower but there is still good volatility in the Stocks in Play. This is one of the easiest times of the day for new traders. There is less volume compared to the Open but also less unexpected volatility. A review of my new traders' trades indicates that they do the worst during the Open and best during the Late-Morning session. Especially excellent risk/reward trades can be expected during this period.

- VWAP Reversal and VWAP False Breakout tend to be the best strategies for the Late-Morning. I rarely trade Bull Flag in the Late-Morning, Mid-day or at the Close.

During the Mid-day (12 p.m. to 3 p.m.) the market is slower. There is less volume and volatility, but Stocks in Play will often start finding their trend to the upside or downside.

- VWAP Moving Average Trend and VWAP False Breakout tend to be the best strategies for the Mid-day. Wait to see if the Stocks in Play hold the VWAP or lose it before trading based on the VWAP Moving Average Trend Strategy.

Into the Close (3 to 4 p.m.), stocks are more directional, so I stick with those that are trending up or down in the last hour of the trading day. I raise my tier size from the Mid-day, but not as high as it is at the Open. The daily closing prices tend to reflect the opinion of Wall Street traders on the value of stocks. They watch the markets throughout the day and tend to dominate the last hour of trading. Many of the market professionals take profits at that time to avoid carrying trades overnight. If the stock is moving higher in the last hour, it means the professionals are probably bullish on that stock. If the stock is moving lower in the last hour, the market professionals are probably bearish. It is thus a good idea to trade with the

professionals and not against them.

- VWAP Moving Average Trend trades tend to be the best strategies for the Close.

Many traders lose during the day what they have profited in the Open. Don't be one of them. I created a rule for myself. I am not allowed to lose more than 30% of what I have made in the Open during the Late-Morning, the Mid-day and the Close. If I lose more than the allowed 30%, then I either stop trading or start trading in a simulator.

This is just a general guideline to what normally happens at these times. And sometimes, many of them can even happen at the same time. Some examples follow this Figure 6.57, which is a summary chart of various trading strategies organized by the time of day that I recommend they be utilized.

Figure 6.57 - Recommended trading strategies organized by the time of day.

Figure 6.58 shows FL on August 21, 2017. This stock did a really nice Opening Range Breakout, then it did a VWAP False Breakout, and then it started a VWAP Moving Average Trend to the downside. Thus, this stock showed three strategies in just this one time interval. Some people might also have taken a reversal right at the Open. So, as you can see, there are a number of strategies that can happen together at the same time.

Figure 6.58 - Example of how several strategies can unfold in one Stock in Play (in this instance FL).

Another example is Figure 6.59, JWN on May 12, 2017. Again, as you can see, one Stock in Play showed several strategies all at once. The stock had a very nice Opening Range Breakout, then a really nice VWAP False Breakout, and then it started to establish a downtrend. If you had wanted to take a reversal, you could have done that to the VWAP at around 9:45 a.m.

Figure 6.59 - Example of how several strategies can unfold in one Stock in Play (in this instance JWN).

Other Trading Strategies

You have now read a summary of my trading strategies. You may be wondering what other traders do. As I mentioned before, there is an unlimited number of trading strategies that individuals have developed for themselves. Traders often choose and modify their strategies based on personal factors such as account size, amount of time that can be dedicated to trading, trading experience, personality and risk tolerance.

You should develop your own strategy. A trading strategy is very personalized to each individual. My risk tolerance and psychology are most likely different from yours and from those of other traders. I might not be comfortable with a $500 loss, but someone who has a large account can easily hold onto the loss and eventually make a profit out of a losing trade. You cannot mirror trade anyone else; you must develop your own risk management method and strategy.

Some traders focus heavily on technical indicators like the RSI (Relative Strength Index), the moving average convergence divergence (also known as the MACD), or the moving average crossover. There are hundreds, if not thousands, of sophisticated technical indicators out there. Some traders believe they have found the Holy Grail of technical indicators, and it might be a combination of RSI or the moving average crossover. I don't believe having a large number of technical indicators will automatically make you a successful day trader. Day trading is not mechanical and automated. It is discretionary. Traders need to make real time decisions. The success of each strategy is based on judgment and the proper execution of it by the trader.

Of course, I use the RSI in my scanner for some of my trading strategies, and in particular for reversal trading. I have scanners that rely on a high or low RSI, but those are more conditioned to find stocks at extremes. They are by no means a buy or sell indicator.

I am skeptical of the strategies that have many indicators. I don't think that having more indicators on your chart helps you in day trading, especially since you need to be able to process information very quickly, at times in just a matter of seconds. I have found that often indicators' signals will also contradict each other and that will lead to confusion.

That is why my day trading indicators are limited to VWAP and a few other moving averages. For my swing trading, I use more complicated indicators such as MACD because I do not have to make quick decisions. I usually review my swing trading after the market closes,

with proper due diligence and evaluation. You can easily find more information about the indicators I've mentioned in this section, along with many others, by doing a simple online search.

Some of my day trader colleagues may disagree with me, but as I mentioned above, my personal experience is that you cannot enter a trade with a mechanical and systematic approach and then let the indicators dictate your entry and exit. That in fact is one of my rules for day trading: Indicators only indicate; they should not be allowed to dictate.

Computers are trading all of the time. When you set up a system for trading that has no input or requires no decisions by the trader, then you are entering the world of algorithmic trading, and you will lose trades to investment banks that have million dollar algorithms and billions of dollars in cash for trading.

Develop Trading Skills, Not Strategy

Remember, in trading there is no best strategy, you have to find your own best approach to trading. Traders often ask me which strategy is the “best” strategy. There is no one best strategy, you have to see which one works best for you. Just like there is no one best automobile in the market, you have to decide what kind of car is best for you, your family, and lifestyle. Are you in need of a truck or a low fuel consumption commuter? Do you have a large family and need a van, or are you young and desiring a sports car?

If you want to find the best trading strategies for yourself, you also have to look at your personality and circumstances. What is the time of the day that you want to trade in? It may very well depend upon which time zone you live in. That also has an effect on your trading. Some traders can trade only at the Open, while others are able to trade during the Mid-day and into the Close. For example, there is no point in trying to trade an Opening Range Breakout in the afternoon, you have to look for other trading strategies if you miss the morning volatility.

If you think that Opening Range Breakouts are really volatile, and you get stopped out all of the time, wait for a VWAP False Breakout, or wait for the Mid-day and try and catch a VWAP Moving Average Trend. Don't forget that one of your goals during training in your simulator is to find the best strategy that you can recognize and execute. I might be good at finding a Bull Flag, but you might be good at finding VWAP False Breakouts. Someone else might be good at finding VWAP Moving Average Trends or ABCD Patterns. You have to determine what makes sense for you personally. You need to figure out what aspect of all of this you're better at, and then you need to focus on that. You will no doubt make a connection with one particular strategy.

Again, there is no best strategy here, only what's best for you. Some people might even be using these very strategies but calling them by a different name. In the end, it all goes back to experience and figuring out who's in control of the market at any given trading moment. As I’ve discussed, I try not to use very complicated indicators. In my opinion, the VWAP is probably the most important indicator needed for a trade.

One of my successful students, Daniel, is now trading on his own. He is no longer part of our chatroom, but he still sometimes emails me or posts something in our Forum. He does not like to be distracted by the

chatroom, which I totally understand. I recently saw one of his discussions with another one of my students concerning how he just "evolved" and "invented" his own successful trading strategy based upon what I had taught him in classes. I enjoyed reading his comments and I believe that is the way to go for new traders. Don't blindly follow the pack. Be an independent trader. I don't expect everything I do to work exactly the same for you.

Like my student Daniel, you must find your own place in the market. I may be a 1-minute or a 5-minute trader; you may be a 15-minute or 60-minute trader. Consider what you are learning in this book as pieces of a puzzle that together make up the bigger picture of your trading career. You're going to acquire some pieces here, you're going to pick up pieces on your own from your own reading and research, and, overall, you will create a puzzle that will develop into your own unique trading strategy. That is the definition of being a trader for life.

It is absolutely critical for every trader to be trading a strategy. Plan a trade, and trade the plan. I wish someone had said to me when I first started training, "*Andrew, you need to trade a strategy. If you're trading with real money, you must be trading a written strategy, and it must have historical data to verify that it's worth trading with real money."* You cannot change your plan once you have already entered the trade and have an open position.

The truth about many new traders is that they fail. They lose money, and a large percentage of those traders are not gaining the education that you are receiving from reading this book. I myself, although having a prestigious PhD, started my trading in the worst possible way: with no strategy, the wrong broker, and the wrong platform. And that is the story of a world-class PhD researcher with some supposedly strong critical thinking skills. I know how frequently and how easily these types of mistakes can occur with beginners. I can relate. Many traders start trading live with some quasi-trading strategies that are not even hammered out yet. They will just be haphazardly trading a little of this and a little of that until their account is gone, and then they will wonder what happened.

You don't want to live trade a new strategy until you've proven that it's worth investing in. You may practice three months in a simulator, and then trade small size with real money for one month, and then go back to the simulator to work on your mistakes or practice new strategies for another three months. There is no shame in going back to a simulator at any stage of your day trading career. Even experienced and professional traders, when they want to develop a new strategy, test it out in a live simulator first.

Your focus while reading this book and practicing in simulated accounts should be to develop a strategy worth trading, and it's my pleasure to assist you with that process. Remember, the market is always going to be there. You don't need to rush this. A day trading career is a marathon - not a sprint. It's not about making $50,000 by the end of next week. It's about developing a set of skills that will last a lifetime.

A successful trade is the combination of all that you have learned so far. Some of these strategies have been presented in the "textbook style", but in real time you may very likely not get these perfect textbook set ups.

Successful day trading is based on these important skills:

1. You need to have the right tools and platforms for trading (Chapter 2).
2. You need to trade the right stock. Trading a stock that is not in play will result in a loss, even for the best traders executing the most proven strategies (Chapter 3).
3. You need to define meaningful support and resistance on your charts before trading, which you can then use for stop loss and profit target levels (Chapter 4).
4. You need to constantly analyze the balance of power between buyers and sellers and bet on the winning group (Chapter 5).
5. Before taking the trade, you need to define a trading plan and strategy for the trade (Chapter 6).
6. You need to practice excellent money and trade management (Chapter 7).
7. And you need sufficient self-discipline to follow your trading plan, to avoid getting overexcited or depressed in the markets, and to resist the temptation to make emotional decisions.

It is a typical beginner mistake to focus only on finding the best trading strategy. New traders will at times think that they have found that one best trading strategy. But then, it doesn't work out for them, and they are not able to consistently make a profit. That is because they are missing the other equally as important aspect of a successful trade. Just like a professional athlete or a team cannot be successful by focusing on only one particular muscle or technique, traders cannot become successful by focusing only on one aspect of trading. As a trader, you need to have an understanding of price action, to be able to properly find a support or resistance, to have a proper size and stop loss to manage your risk management, and to be able to make decisions, quickly and while under pressure, based on all of the different items discussed in this book. You can become a consistently

profitable trader only by practicing and executing the combination of everything you've learned so far. It's not enough to only know one of them, or only a couple of them. You need to know all of them. You need to have an understanding of every aspect of trading and how everything works together. There's no easy shortcut.

The most important part of this book may very well be learning how to put everything that you have studied so far together, just like the pieces of a jigsaw puzzle.

One afternoon I came back to the chatroom and took a winning trade on JUNO. I often do not trade in the afternoon, so the traders in our room were curious about what I was up to. Interestingly for everyone, including me, the trade ended up not being a very straightforward one. Our traders asked me to explain what I saw that led me to trade as I did, which was to short JUNO from $58 to around $56.60, as seen in Figure 6.60.

Figure 6.60 - Outline of a trade I took on JUNO.

Let's review my thought process on this trade. JUNO was on my pre-market watchlist, but I never got a chance to trade it in the morning session. Although I was expecting JUNO to be a Stock in Play (Chapter 3), I was just busy trading other stocks. However, around 2:30 p.m., when I came back to the chatroom, someone mentioned JUNO. I noticed it had moved strongly during the day. When I looked at my charts, what I saw on JUNO was what follows in Figures 6.61 and 6.62:

Figure 6.61 - Review of my thought process on JUNO.

1. JUNO was a Stock in Play. It had been on my watchlist in the morning (Chapter 3).
2. I had a daily level of $59.45. I had this level on my chart when I saw JUNO, most likely I had found it on my pre-market scan (Chapter 4).
3. I noticed a bounce from the $59.45 level two times. One at around 1:30 p.m. and another later, at around 2:15 p.m. It seemed to be that the buyers were exhausted and the sellers and short sellers soon might gain control of the price. They had already pushed the price down from $59.45. In technical terms, this thought process is called one's price action analysis (Chapter 5).
4. Knowing this, I decided to trade the stock on the short

side with a reversal back to VWAP. The signal for me was the two failed attempts to break $59.45 (Chapter 6).

Figure 6.62 - Trade analysis outlined on JUNO 1-minute and 5-minute charts.

1. To find the correct risk/reward ratio, I decided to look at both the 1-minute and 5-minute charts. I did not want to put a stop loss on the high of the day, because $59.40 was too far from my entry at around $58.20. A better stop loss could be found with a higher resolution time frame such as a 1-minute chart (Chapter 7).
2. I decided to go short at $57.80 with a stop loss of $58.40, above 9 EMA on my 1-minute chart. My profit target was ultimately VWAP, but since VWAP was very far away, about $55 at that time, I decided to define a closer first target as well. The first reasonable profit target would have been 200 SMA on my 1-minute chart, because 200 SMA is usually a very strong support level and there was a good chance JUNO might bounce back from it (Chapter 3). The other profit target could have been 50 SMA on my 5-minute chart.
3. I took the trade short, and the price dropped quickly. I covered some shares at $57 and brought my stop loss from $58.40 to my break-even level, i.e., my entry at $57.80 (Chapter 5). The stock pulled back slowly on the 1-minute chart and sold off to 200 SMA on that 1-minute chart. I covered more at 200 SMA on my 1-minute chart at around $56.80. Later, when the stock bounced back heavily, I covered the last piece at $57.30 when it squeezed above 9 and 20 EMA on my 1-minute chart. I did not wait until the price moved back to my break-even point, because by that time I was certain that it was not weak enough to crack 200 SMA on my 1-minute chart. This is another aspect of trade management and price action observation discussed in Chapter 5.

As you can see, this trade was not a textbook style trade. It was a reversal, from an unusual entry, and had to be perfectly managed for the maximum possible profit. I could have just gone short and put a stop loss above the high of the day, and a profit target at VWAP, and left. In this case, that would have resulted in a bad loss. I didn't. Instead, I continuously monitored the price action and managed to take partial profits. I turned a possible losing trade into a winning one.

And the moral of this example: a successful trade is the combination of all that you have learned so far.

Chapter 7:
Risk and Account Management

Success in day trading comes from three elements: (1) mastering one or a few proven trading strategies, such as what I have devoted Chapter 6 of this book to; (2) excellent risk management, knowing proper share size, and defining proper entry, exit and stop loss levels; and (3) as has been emphasized several times already in this book, controlling emotions and sound psychology. As Dr. Alexander Elder writes in his book, *Trading for a Living*, these three are equally important, like the three legs of a stool – remove one and the stool will fall. It is exceptionally important to learn how to manage your account risk. It may surprise you to know that even if you get everything wrong except your risk management, you can still make a profit. Van K. Tharp, a trading coach, once said that even a totally random entry system can be profitable if your risk management system is sound.

Often, when a new trader fails to make money in the market, they get frustrated and go out and try to learn even more about how the markets work, study new strategies, adopt additional technical indicators, follow some different traders, and join other chatrooms. They don't realize that the main cause of their failure may not be their technical knowledge but often their own psychology and behavior: a lack of self-discipline, making of impulsive decisions and sloppy risk and money management. You are the only problem you will ever have for your trading career and, of course, you are the only solution to this problem.

A good trading strategy delivers positive expectancy; it generates greater profits than losses over a period of time. All of the strategies outlined in Chapter 6 have been demonstrated, if executed properly, to show positive expectancy. But even the most carefully executed and best strategy does not guarantee success in every single trade. The normal uncertainty of the market will result in you at times having a losing trade or even at times suffering a series of losing trades. This is why risk control must be an essential part of every trading strategy. As I discussed in the Introduction, it is a career based on probabilities and statistics. Remember the Monty Hall puzzle?

One of my favorite trading expressions is *"live to play another day"*. This simple saying says so much about the mindset of a professional trader. If you survive the learning curve, then the good times will

come and you can become a consistently profitable trader. But you have to survive. And many just can't.

A common reason for the failure of new day traders is that they cannot manage their losses. Accepting profits is easy to do, but it is much more difficult, especially for beginners, to overcome the temptation to wait for losing trades to return to the break-even point. They will often say, *"I will just give this trade a bit more room."* Waiting for something that is not likely to happen can result in serious damage to their accounts.

To be a successful trader, not only must you learn excellent risk management rules, but you also need to firmly implement them. You must have a line in the sand that tells you when to get out of the trade. It's going to be necessary from time to time to admit that a trade did not work as you planned and say, "*I was wrong,*" or "*The setup isn't ready yet,*" or "*I'm getting out of the way.*"

I'm a consistently profitable trader, but I still lose frequently. That means I must have found a way to be a really good loser. Lose gracefully. Take the losses and walk away. If a trade goes against you, exit the trade. In day trading, the unexpected will occur, this is the name of the game. There is always another trade and another day. Holding a position that is trading against you because you are primarily interested in proving your prediction to be correct is bad trading. Your job is not to be correct. Your job is to make money. This career is called trading, not predicting.

I can't emphasize enough how important it is to be a good loser. You have to be able to accept a loss. It's an integral part of day trading. In all of the strategies that I explained in Chapter 6, I noted what is my entry point, my exit target, as well as my stop loss.

The Importance of Risk Management

I will reiterate: being able to make quick decisions and being able to make and then follow your trading rules are critical for success. As you read and reread my books and books by other traders, you are going to read much about risk management. Everything that traders do comes back to risk management because ultimately it is the most important concept for a trader to understand. All day long, you are managing risk. Related to this is the ability to manage risk so that you will make good decisions - even in the heat of the moment.

As mentioned before, traders are in the business of trading. You need to define your risk as a business person - the maximum amount of money you'll risk on any single trade. Unfortunately, there is no standard dollar amount that I can suggest. As explained earlier, an

acceptable risk depends on the size of your trading account as well as on your trading method, personality and risk tolerance.

The 2% rule cannot be overemphasized. The absolute maximum traders may risk on any trade is 2% of their account equity (not including margin). For example, if you have a $30,000 account, you may not risk more than $600 per trade, and if you have a $15,000 account, you may not risk more than $300. Do not calculate the 2% based on your buying power, calculate it only based on the amount of capital you have in your account.

If your account is small, limit yourself to trading fewer shares. If you see an attractive trade, but a logical stop would have to be placed where more than 2% of your equity would be at risk, pass on that trade and look for another trade. You may risk less, but you may never risk more. You must avoid risking more than 2% on a trade. I personally limit my loss per trade to 1% of my account; 99% of my account is always protected.

As I mentioned not too many pages ago, traders should not expect to be right all of the time. It's impossible to be. Trading is based on probabilities (Again, remember the Monty Hall puzzle?) and it requires a great deal of patience to identify setups with attractive risk/reward potential. I am consistently profitable even though 30% of my trades result in a loss. I don't expect to be right every single trade. If you owned a small business, you wouldn't expect it to be profitable every single day. There would be days when you wouldn't have enough customers or sales even to support your staff or your lease, but these would be more than offset by days when your business prospered.

If you examine the work of most successful traders, you will see that they all take many small losses. Their results are littered with numerous small losses of 7c (cents), 5c, 3c, and even 1c per share. Most good day traders have few losses that are more than 30c per share. Most winning trades should work for you right away.

One of the fundamentals you must learn from this book is that every day trading strategy comes with a stop loss level and you must stop out from stocks that trade against your strategy. Imagine for a moment that you are shorting a stock below an important resistance level and you are waiting for the price to go lower. That is fine. But suddenly the price turns against you and breaks the resistance level and trades higher. Now your original trade plan is obsolete. You have no reason to stay in the trade. You cannot wait in the trade in the hope that the stock may trade lower again. That is wishful thinking. You can wipe out your trading account with ONE crazy move. The

stock may or may not trade lower again, but above the resistance level you have no reason to be short in the stock. If the stock was weak and comes back below the level, you may enter the trade again. Commissions are cheap, so accept a small loss and get out. You can always get back into the trade when the setup is ready.

Those who never master this fundamental rule will fail. This is a common problem amongst new traders: they don't accept a small loss. You must work at this while trading in a simulator. You should move to live trading only if you have mastered accepting and respecting your stop loss. If you don't know where your stop loss is or where it should be, then perhaps you should not be in that trade in the first place. It means you have not planned it correctly. It also means you should step back to reading about and reviewing your strategies and return to trade again in the simulator.

Consistently profitable traders make sound and reasonable trades. They accept that they cannot control the market or results on every single trade, but they stick to their plan and control their capital. Professional traders often review their P&L quarterly, and then make a decision on their performance and adjust their trading strategies accordingly.

Many traders think a good trading day is a positive day. Wrong. A good trading day is a day when you were disciplined, traded sound strategies, and did not violate any trading rules. The normal uncertainty of the stock market will result in some of your days being negative, but that does not mean that a negative day was a bad trading day.

Education and practice give you a perspective on what matters most in trading, how you trade, and how you can grow and develop your skills. Once you have a perspective on what matters the most, you can proceed to identify the specific processes on which to focus. The key to success is knowing the trading process. Often you will learn them the hard way - by losing money.

Don’t Change a Day Trade to a Swing Trade

In my first book, *“How to Day Trade for a Living”,* I introduced a rule that a day trader must close their position at the end of the day, even at a loss. You should never turn a day trade into a swing trade and hold your position overnight. This did not resonate with all traders. Roy, a reader of the first book, wrote a review, included as Figure 7.1, saying:

“*The really big thing is to get out of your trade at the end of the day. Vamos!*”

Figure 7.1 - Amazon review of my first book (https://goo.gl/z75x6A).

Sorry Roy, but I still stand by my opinion. A successful day trader follows their well-thought-out in advance trading plan based on the rules of the strategy they have chosen for that particular trade, and this is one of the challenges you will face when in a bad trade. You may very likely find yourself justifying staying in a bad trade by saying, “*Well, you know, it's Apple, and everybody knows how successful they’ve been. They're definitely not going out of business. I'll just hold this for tomorrow and see how it goes.*”

This is one of the deadliest sins a day trader can make. You do not want to do that. You must follow the rules of your strategy. You must follow the trading plan you prepared prior to entering the trade. You can always get back in, but it’s hard to recover from a big loss. You may think, “*I don't want to take a $50 loss.*” Well, you definitely don't want to take a subsequent $200 loss. And if you ended up taking an $800 loss, it would be really hard to recover from that. Take the quick losses, get out, and come back when the timing is better.

Of course, I am not against holding shares of Apple overnight, or any other stock for that matter. There is nothing wrong with holding positions for a few days and much money can be made on the market from doing that. But if you plan to trade overnight, you need to remember that now you are making a swing trade, and swing trades have their own rules and considerations. You should never turn a day trade that goes bad into a wishful swing trade. It often does not end well. You may get lucky a few times and the stock will bounce back, but the market will eventually punish you if you get into the habit of having a “holding it a bit longer” type of attitude. My friend Brian in our chatroom often holds many stocks overnight, but he purposely holds them overnight, and only after reviewing daily charts, market conditions and many other details. He never keeps a losing position

just because he got stuck in a bad trade.

I want to share with you a couple of emails I received from traders. They're good examples of the challenges new traders face. Trader Sean's first email to me read:

"Hey, how are you? I am an ironworker and want to get into day trading. I already started about 5 months in trading. I read your book and it was helpful, but there are a few things I still don't understand and hoping you can assist me. Don't mean to intrude on your time. Thank you."

Like everyone does, I receive many emails every day. I always try to find the time though to answer questions from new traders as I enjoy those exchanges. I asked Trader Sean how I might help him and then I learned what I was afraid of. He was looking for my opinion about a few bad trades that he got stuck in.

"I have 4 position[s] open and I'm down on all of them. My account is not allowing [me] to day trade. I'm currently allocating funds to day trade. Do you think I should hold the position until they are back up or should I cut my losses? These positions are holding up more than 50% of my account."

Figure 7.2 – Emails from a trader seeking advice.

Unfortunately, I could not help him. I do not know enough about Trader Sean to provide any sort of meaningful advice. How big is his position? How big is his account? How old is he? Does he have a family? Is this money his retirement account or money that he can afford to lose? I was not in a position to offer any advice. What I might personally think is irrelevant. I advised Trader Sean to talk to a qualified and licensed advisor and seek professional guidance for his position. His two emails are reproduced above as Figure 7.2.

Another example was a trader who I know for a fact is also a medical doctor. Let's call him Trader MD. His email is reproduced as Figure 7.3. He emailed me and explained a trade that went bad and asked for advice:

"Hello Dear Aziz,

"I read your book, it is very useful and enjoyable.

"I am a swing trader (beginner). I did a big mistake, I need a strategy to recover my lose, can you please give me a strategy that can help.

"I bought a stock GBTC (Bitcoin Investment Trust), I invested $55,000, currently I am losing $15,000 due to current bitcoin crush. I have been waiting for bitcoin to recover, but every day my loss gets bigger, what should I do? Should I sell everything or should I buy/sell to bring the breakeven down? What would be your suggestion?"

Figure 7.3 - Trader MD's emailed questions.

Back in December 2017, Bitcoin was being traded at up to around $20,000. GBTC was being traded at an all-time high of around $40. Figure 7.4 is a daily chart for GBTC for around this time frame. Trader MD emailed me on December 30, 2017, so I assume he must have got into the trade at around those prices. "Bitcoin mania" burst in January 2018 and it dropped to as low as $6,900 on February 5, 2018. Therefore, GBTC also dropped, from a high of $40 to below $10, as GBTC essentially tracks the price of the Bitcoin. At the time I am writing these sentences in March 2018, GBTC is being traded at around $17. Again, I sympathize with Trader MD, but he should have never let this happen in the first place. He did not have a proper risk management plan and ended up gambling his savings on GBTC.

When you enter into a trade, no matter if it is a swing trade or a day trade, you need to define your entry, your exit and your stop loss. Every time you trade, you're exposing yourself to the risk of losing money. How do you minimize that risk? A common reason for the failure of new traders is their inability to manage losses. Accepting profits is easy to do, but it is much more difficult, especially for beginners, to overcome the temptation to wait for losing trades to return to the break-even point. Waiting for something that is not likely to happen can result in serious damage to your accounts, as I guess it did to Trader MD. You must define a proper entry, profit target and stop loss and then, if the trade goes against you, exit it. You are much more apt to manage your losses if you stick to your plan and under no circumstances risk more than 2% of your account with any trade.

Figure 7.4 - Daily chart showing price variations in GBTC.

This example also shows the importance of sound psychology and self-control for traders. I am sure many readers remember the "tulip mania" of Bitcoin at the end of 2017. Tulip mania refers to a period in the 17th century, during the Dutch Golden Age, when the Netherlands was the world's leading economic and financial power. At that time, the prices of some fashionable tulip bulbs reached extraordinarily high levels and then in February 1637 dramatically collapsed, essentially becoming the first recorded speculative bubble, which is when the prices of assets or commodities deviate considerably from their real intrinsic values. Tulip mania, similar to the cryptomania craze of 2017, was more a socio-economic phenomenon than a major economic issue or crisis, as tulip bulbs were not a significant part of the Dutch economy, just as cryptocurrency is not (yet at least!) a significant part of our global economy.

Similarly, in 2017, ordinary people, uneducated investors, and people with limited financial literacy were rushing to buy cryptocurrencies. The market was unbelievable. The blockchain stocks were the hot new thing. The value of companies who simply mentioned the word *"blockchain"* in a press release would skyrocket. For example, a company called "Long Island Iced Tea Corp." (ticker: LTEA) changed their name to "Long Blockchain Corp." (ticker: LBCC) and decided to shift their focus from beverages to blockchain technology. The stock ran nearly 500% in a single day, as you can see in Figure 7.5. The company's shares moved from below $2 to $9.47 with heavy trading volume. On April 10, 2018, LBCC was delisted by the Nasdaq, but is still available on the over-the-counter (OTC) markets. As of June 10, 2018, LBCC was being traded at $0.35 per share. The company has abandoned its plans to purchase Bitcoin mining equipment.

Figure 7.5 - Long Island Iced Tea Corp. (ticker: LTEA). In 2017, the corporation rebranded as Long Blockchain Corp. (ticker: LBCC) as part of a corporate shift towards "exploration of and investment in opportunities that leverage the benefits of blockchain technology" and reported that they were exploring blockchain-related acquisitions.

Figure 7.6 - Blockchain mania on Longfin Corp. (ticker: LFIN). LFIN is now de-listed from the Nasdaq and as of June 2018 is being traded at about $3.50 in the over-the-counter (OTC) markets.

Rational? No, but this was the theme at the time, as many blockchain stocks were experiencing similar moves. Figure 7.6 highlights Longfin Corp. (ticker: LFIN), another company that was established in December 2017 and made headlines when its stock price increased more than 200% from $40 to over $142 in 1 day, a move of over 300%! LFIN's price later fell by over 95% and as of June 10, 2018 is being traded at $3.75 per share in the over-the-counter markets. Many analysts and Wall Street research firms called LFIN a 'pure stock scheme'. The Securities and Exchange Commission (SEC) started an investigation into the company as filings and press releases were "allegedly" riddled with inaccuracies and fraud.

Many ordinary investors such as Trader MD were victims of 2017's cryptomania, investing perhaps a lifetime of savings into something that they had developed absolutely no risk management plan for.

A novice trader with a feeling of missing out, perhaps such as Trader MD, will get slaughtered eventually. Don't get me wrong. I am not

against Bitcoin or cryptocurrencies, nor do I believe that they have no intrinsic value. The blockchain may indeed one day revolutionize the financial market, but those prices back in 2017 were mostly speculative. There is nothing wrong with trading Bitcoin. A lot of money was to be made amid the volatility, but experienced traders knew that they were only trading for the short term, and they had firm risk management rules in place. Experienced traders make their money, but they never let a bad trade turn into a ticking time bomb inside of their accounts. We in the chatroom were making thousands of dollars daily on cryptocurrency-related stock such as Riot Blockchain, Inc. (ticker: RIOT), Xunlei Limited (ticker: XNET), Advanced Micro Devices, Inc. (ticker: AMD), and NVIDIA Corporation (ticker: NVDA). We made so much money on XNET that in the chatroom we referred to it as, “XNET, our good buddy”. I recall a period when Brian traded NVDA every single day for almost 6 months.

Risk Management

Risk management is the science (and often the art) of limiting the losses your trading account may suffer. All professional (and great) traders lose money. What separates the successful ones from the burnouts are those who manage their risk well.

There are two elements in risk management: (1) a proper risk/reward ratio which is defined by your entry, your profit target and your stop loss; and (2) position sizing.

Risk/Reward Analysis: Entry, Profit and Stop Loss

A good setup is an opportunity for you to get into a trade with as little risk as possible. That means you might be risking $100, but you have the potential to make $300. You would call that a 3 to 1 profit-to-loss ratio. On the other hand, if you get into a setup where you're risking $100 to make $10, you have a less than 1 risk/reward ratio, and that's going to be a trade that you should not take.

Good traders will not take trades with profit-to-loss ratios of less than 2 to 1. That means if you buy $1,000 worth of stock, and are risking $100 on it, you must sell it for at least $1,200 so you will make at least $200. Of course, if the price comes down to $900, you must accept the loss and exit the trade with only $900 (a $100 loss).

Let me explain the risk/reward ratio in a real trade that I took. Molina Healthcare, Inc. (ticker: MOH) was on my watchlist on February 16, 2017. At the Open (at 9:30 a.m.) it was strong and it then went higher. I was watching it. Suddenly, at around 9:45 a.m., MOH started to sell off heavily below its Volume Weighted Average Price (VWAP, see Chapter 2 for some detailed commentary on my indicators). I decided to sell short MOH below VWAP at around $50. My profit target was the next daily support of $48.80. That was a $1.20 reward per share. My stop loss naturally should have been when the price of MOH went above VWAP, which in this case was $50.40, as marked in Figure 7.7 below. I could risk $0.40 per share in the hope of rewarding myself $1.20 per share. That is a 1:3 risk/reward. I indeed took this trade.

Figure 7.7 - Screenshot of my trade on MOH on February 16, 2017 showing my entry, exit and stop loss. As you can see, the profit-to-loss ratio was 3 to 1.

Now imagine if, in the above example, you missed the opportunity at 9:45 a.m. when the stock was being traded at around $50.20, and

instead you went to go short a few minutes later at around $49.60 with the profit target of $48.80. In this case, your reward would be around $0.80 per share, but your stop loss should be above VWAP at around $50.20. You are therefore risking $0.60 per share to reward yourself $0.80 per share. This 1.3 ratio ($0.80/$0.60) is not a favorable profit-to-loss opportunity that I would want to base a trade on. In this case, I would accept that I had probably missed the opportunity.

You may say, "*Okay, if my entry is at $49.60, should I define a closer stop loss to have a more favorable profit-to-stop loss ratio?*" The answer is "*No.*" Your stop loss should be at a reasonable technical level. Any stop loss below VWAP is meaningless in this case because the stock can make a normal pull back toward VWAP at any time and then continue to sell off toward your target. This is actually what happened when, at around 10:20 a.m., MOH's price pulled back toward VWAP, but did not reach to the VWAP, and then sold off toward $48.80. I've marked this in Figure 7.8 below. If you had defined a stop loss anywhere below VWAP, most likely you would have been stopped out at a loss.

Figure 7.8 - Screenshot of MOH on February 16, 2017. This is the example of a bad risk/reward. As you can see, the profit-to-loss ratio was less than 2 to 1 and was not tradeable. You have missed the opportunity.

Another analysis of a risk/reward ratio is an October 10, 2017 trade that I took on MNKD. When the market opened, MNKD sold off to yesterday's low at $5.74 and then bounced back above VWAP. After a move above VWAP (point B), it did sell off back to VWAP and held it as a support (point C). As soon as it moved above VWAP toward the new high of the day (points B and D), I went long at $6.10 with a stop loss below VWAP at around $6. I sold toward the profit target of $6.90. This was an excellent 1:8 risk/reward ratio, as illustrated in Figures 7.9 and 7.10 below.

Entry		$6.10
Stop loss		$6.00
Risk		10 cents per share
Profit target		$6.90
Reward		80 cents per share
Reward:Risk		8:1

Figure 7.9 – Risk/reward analysis on MNKD.

Sometimes when you trade based on a 5-minute chart, it is difficult to find a good risk/reward ratio and define proper stop losses. Looking at

a 1-minute chart will often give you a better resolution and proper technical levels for defining stop losses.

Figure 7.10 - Risk/reward analysis on 1-minute and 5-minute charts on MNKD on October 10, 2017.

A good entry defines an excellent risk/reward. You may recognize a trading opportunity correctly, but if you cannot find a good entry with a proper risk/reward ratio, you should not take that trade. Instead, you should keep monitoring your chart until you find a good risk/reward ratio. To illustrate this point, let's review Figure 7.11, where I explain two potential trades on SQ. You recognize an Opening Range Breakout toward 200 SMA on your 5-minute chart, and you would like to go long, but you notice it at 9:45 a.m., when the price is almost at $41.75. That is a profit of 75 cents toward 200 SMA at $42.50. But, to enter that trade, you have to define a risk below VWAP at $41, a risk of 75 cents per share. This is a 1:1 risk/reward, an undesirable risk/reward ratio, so you should not take the trade at that time.

Ten minutes later, at 9:55 a.m., SQ's price has dropped to $41.50, and now you are thinking of going long toward 200 SMA. Now the risk/reward ratio is in your favor: your stop loss can be at VWAP, around $41.25 (please note that VWAP has moved up from the $41 of 10 minutes ago), with a profit target still at $42.50. This is now a 1:4 risk/reward ratio. It's the same idea, but a different entry provides a different risk/reward opportunity, and that makes a huge difference in your trading result.

Figure 7.11 – Risk/reward analysis on SQ.

Entry	$41.75						
Stop loss	$41.00						
Risk	75 cents per share						
Profit target	$42.50						
Reward	75 cents per share						
Reward:Risk	1:1						

Another example of a risk/reward analysis can be seen on a trade I made on November 28, 2017 on XNET, as set out in Figures 7.12 and 7.13. When XNET lost the VWAP, I decided to go short below the VWAP at around $17.45, with a stop loss above the VWAP of around $17.70. My profit target was about $16.70, the low of the pre-market.

Figure 7.12 - Risk/reward analysis on XNET.

Entry	$17.45						

Stop loss	$17.70			
Risk	$17.70 - $17.45 = 25c			
Profit target	$16.70			
Reward	$17.45 - $16.70 = 75c			
Reward:Risk	3:1			

Figure 7.13 - Risk/reward analysis on XNET.

Another example of a real time risk/reward analysis is shown in Figure 7.14, where I went short below VWAP on an Opening Range Breakout on TEVA at 9:37 a.m., with the profit target of 1) the previous day close of $14.65 and 2) 200 SMA on my 5-minute chart (around $14.49). Do note that moving averages can also change during a trade and move higher or lower depending on the price direction. At this time, 200 SMA on my 5-minute chart was around $14.49. Looking at my 5-minute chart, it was difficult to define a proper stop loss and entry, so I looked at the 1-minute chart to get a better resolution, although my main trading plan was based on my 5-minute chart. As you can see in the 1-minute chart in Figure 7.14, I went short at around $14.70 and covered some at the previous day close and finally at my $14.49 profit target with a stop loss of above VWAP. Since 200 SMA on my 1-minute chart was close, and the risk/reward ratio for this trade was still in my favor, I decided to give the trade some room above both VWAP and the 200 SMA on my 1-minute chart.

Entry	$14.80	
Stop loss	~$14.95	
Risk	15 cents per share	
Profit target	~$14.49	
Reward	30 cents per share	
Reward:Risk	2:1	

Figure 7.14 - Risk/reward analysis on TEVA.

Now that I have walked through a few examples of how to conduct a risk/reward analysis, I hope it is obvious to you that having a good entry is extremely important in order to have a proper risk/reward ratio. If you cannot find a good entry with a good profit-to-loss ratio, then you should either move on and keep looking for another trade or monitor the price on the stock that got your attention and see if you

can find a good entry. As a trader, you are always looking for opportunities to get low-risk entries with big win potential. Being able to identify setups that have a big win potential is part of the learning process. As a beginner trader, you may not be able to differentiate between a range of setups. It may be difficult for you to recognize what a home-run Bull Flag is and what will end up being a VWAP False Breakout. That's something that comes with both experience and training. You can learn much from videos on YouTube and Google. You can also join our chatroom where I explain my trades in real time while I am trading them. You will be able to observe me, my monitor and my trading platform.

Using a 2 to 1 win:lose ratio, I can be wrong 40% of the time and still make money. Again, your job as a day trader is managing risk, it is not buying and selling stocks. Your broker is buying and selling stocks for you in the market. Your job is to manage your risk and your account. Whenever you click "buy" in your trading platform, you expose your money to risk.

Position Sizing

The 2% Rule

Risk management is the science (and sometimes the art) of limiting the losses your account may suffer. One important aspect of risk management is having the proper share size in any trade. You may have an excellent entry and stop loss, but if you are in a trade with too much size, then you have still violated the rules of risk management. But how do you define share size in a trade?

There is a 3-step process that is recommended for traders when they are trying to determine their share size.

Step 1:

Determine your maximum dollar risk for the trade you're planning. Many traders use a maximum acceptable loss of between 0.25% to 2% of their account depending on if they are aggressive risk takers or conservatively cautious traders. Whatever you do though, you should never risk more than 2% of your account in any single trade. You should calculate this amount before your trading day starts. I recommend 0.5% to 1%, and I suggest, especially at the beginning of your trading career, that you be conservative in protecting your account. If you have a $20,000 account (with $80,000 buying power), your maximum loss on any trade should be 1% of $20,000, or $200. You do not want to lose more than $200 in any trade. That is Step 1.

Step 2:

Estimate your maximum risk per share, the strategy stop loss, in dollars or cents, from your entry. This comes from both the strategies set out in Chapter 6 and an understanding of the risk/reward analysis that I just discussed in this chapter. For each trade that you make, you need to define a stop loss level and a risk value. For example, if you enter a short trade at $14 and put a stop loss at $14.10, Step 2 will be 10 cents per share. Similarly, if you go long on a stock at $100.50, and put a stop loss at the break of $100, your risk is 50 cents per share.

Step 3:

Now divide "Step 1" by "Step 2" to find the absolute maximum number of shares you are allowed to trade each time.

To better illustrate this, let's return to Figure 7.7, the example of MOH from a few pages back. If you have a $40,000 account, the 2% rule will limit your risk on any trade to $800. This does not include any buying power (the margin) you might have been granted by your broker. For example, you may have a buying power of 4 times your

account (in this case a buying power of $160,000), but you must always calculate the 2% or 1% rule based on the actual cash you have in your account (which is $40,000). Let's assume you want to be conservative and risk only 1% of that account, or $400. That will be Step 1.

As you monitor MOH, you see a situation develop where a VWAP Strategy may very well work in your favor. You decide to sell short the stock at $50, and you want to cover them at $48.80, with a stop loss at $50.40. You will be risking $0.40 per share. That will be Step 2 of risk control.

For Step 3, calculate your share size by dividing "Step 1" by "Step 2" to find the maximum size you may trade. In this example, you will be allowed to buy a maximum of 1,000 shares ($400 divided by $0.40/ share).

In this case, you may not have enough cash or buying power to buy 1,000 shares of MOH at $50 (because you have only $40,000 in your account). So, instead, you will buy 800 shares or, perhaps, just 500 shares. Remember, you can always risk less, but you are not allowed to risk more than 2% of your account under any circumstance. Why? Because with every single trade you make, you should always ensure that at least 98% of your account is protected, or in this example, 99%, because you want to be conservative and risk only 1% of your account, or $400.

With the strategies introduced in Chapter 6, I explained where my stop loss would be based on technical analysis and my trade plan. I cannot consider maximum loss for your account because I of course don't know your account size. You need to make that judgment for yourself. For example, when your stop would be above of a moving average, you need to calculate and see if that stop would be bigger than your maximum account size or not. If the break of moving average will yield a $600 loss, and you have set a $400 maximum loss per trade, then you should either take fewer shares in that trade or not take that trade at all and wait for another opportunity.

You may correctly argue that it will be difficult to calculate share size or stop loss based on a maximum loss on your account while you are preparing to jump into a trade. You will need to make a decision fast or else you will lose the opportunity. I understand that calculating your stop loss and maximum loss in your account size in a live trade is difficult. But day trading is not supposed to be easy. Trading needs practice and I strongly recommend that new traders paper trade under supervision for at least three months in a live simulated account. It sounds crazy at the beginning, but you will quickly learn how to

manage your account and your risk per trade. You will be amazed at how rapidly the human brain can do calculations on what share size to take and where to set the stop loss.

The 6% Rule

Dr. Alexander Elder in his book, *Trading for a Living,* introduces the 6% rule for risk management. The 6% rule is designed as a guideline regarding how much of your account you're allowed to lose in any given month. According to this rule, you're not allowed to lose more than 6% of your account in a month. If you are down more than 6% in the calendar month, you should switch to your simulator for the rest of the month in order to practice more. The 6% rule prohibits you from trading live for the rest of the month when the total of your losses for the current month and the risks in open trades reach 6% of your account equity.

The purpose of the 2% rule is to protect you from a bad loss on a trade, one that might seriously damage or even wipe out your account and permanently force you out of the world of day trading. Dr. Elder compares the 2% rule to a swimmer who loses an arm or a leg to one bite of a shark. It's a very tragic loss, and it's all at once. Dr. Elder argues that the 6% rule, on the other hand (no pun intended!), is to protect you from a series of small losses such as would be inflicted through the bites of hundreds of piranhas. Piranhas are of course known for their sharp teeth and powerful jaws. Although smaller than a human hand, they are extremely predatory and often attack in groups. When former American President Theodore Roosevelt visited Brazil in 1913, he went on a hunting expedition through the Amazon rainforest and, as he later recounted in his book, "*Through the Brazilian Wilderness*", he witnessed a cow entering into the Amazon River and then being quickly torn apart and skeletonized by a shoal of hungry piranhas.

Traders can avoid sharks with the 2% rule, but they still need protection from those piranhas. That is why my colleagues and I define the 6% rule: to save traders from being shredded to death. Literally! Most traders, when they are in trouble, will start pushing harder and take bigger risks, trying to trade their way out of a hole, which is a classic definition of *revenge trading*. A better response to a series of losses is to step aside, go back to your simulator, and evaluate the situation. The 6% rule sets a limit on the maximum monthly drawdown in your account. It's quite simple. If you reach it, you stop trading for the rest of the month. The 6% rule forces you to get out of the water before even more piranhas reach you.

We all go through periods when every trade we make turns into a loss.

There are days when our trading strategies become out of sync with the market, resulting in one loss after another. These dark times happen and traders, especially new traders, must remember not to push themselves. Professionals on a losing streak will take a break and trade in a simulator to resynchronize with the market. Amateurs are more likely to keep pushing until their accounts become crippled. This is the story of Robert, one of my brightest traders. After an astonishing result in his simulator, he went live and did very well in the first few weeks. He was on top of the world until everything fell apart. Here's his story, in his own words, as posted on our www.BearBullTraders.com Forum.

"*Robert wrote: This is embarrassing. I was doing so well alternating between real and simulator this whole week. These were my results:*

- *-Monday 4 green trade out of 4*
- *-Tuesday 3 green trade out of 5 trade*
- *-Wednesday 1 green trade out of 1 trade*
- *-Thursday 2 green trade out of 2 trade*

"Total: 10 green trade out of total of 12 trades: nice profits, and feeling on top of the world!

"And today it all fell apart in spectacular fashion. I traded like a maniac and finished with a huge loss. It was all a blur, but this is my recollection of the events in question:

*"After two small losses 10 minutes after the open, I was a bit shook. Then on my 3rd trade, I made a hotkey mistake and doubled up my position rather than exiting. That ended in a huge loss. Shortly after that, I made another hotkey mistake and took another big hit. I was a psychological mess. Rather than walking away, I went on a rampage. I started trading stocks not in play (JD, BABA, MU), and was reckless and vengeful. I said to myself 'f*ck it let's go!' (literally out loud) and fired away at my hotkeys like there was no tomorrow. By 10:30 AM EST, I was 0 for 7. By noon, I had made 13 trades. When it was all said and done, I had made 20 trades total (not tickets, but trades). Only 2 of them turned out to be winners. Talk about lack of self-control...*

"I violated every single rule that I had been following religiously all week. I stopped caring about those A1 setups and took anything that looked marginally good. And since SPY was a roller coaster today, I got destroyed by questionable entries and make-belief strategies. I kept trading the same stocks over and over, even after admitting they were not in play. I was trading like it was going out of style. I thought I could outsmart the market and get back at it. It wasn't even about the money anymore. The losses were a foregone conclusion and had evaporated to currency heaven.

"The sad part about this whole tirade was that I knew I was breaking the

rules while violating them--and I didn't give a damn about it. In the moment, I turned into the Incredible Hulk and everything switched to auto-pilot mode. I smashed at my keyboard like a savage. Everything I had learned up to this point in my (short-lived) trading career was thrown out the window. I had literally unleashed an animal that I had no control of. I've never experienced such poor self-discipline in my normal life--ever.

"Today was a reminder of how fragile the trading mindset can be. All it takes is one moment--a FILG one--to send you spiraling out of control. All these rules and checklists I had been adhering to were useless in the face of such madness. They were nothing but delicate paper walls I had erected to trick myself into believing that my emotions were in check. They came crumbling down under the slightest pressure. It was all an illusion; I was delusional.

"I have a lot of reflecting and contemplating to do this weekend. I might take a break from trading to rebuild my psyche. Maybe I'll visit a monastery to cleanse myself of all these trading sins. But first I need to forgive myself. Now I'm just rambling like a fool.

"Thanks for reading, and remember--don't trade like a crackhead.

"/rant"

A member of our community responded to his post:

"Welcome to the emotional rollercoaster of trading Robert! According to Mr. Spock, the fictional character of Star Trek: "In critical moments, men sometimes see exactly what they wish to see". You want to make the losses back, and you will see it in any trade you look at."

Just like having an emergency plan in place in the case of a fire or an earthquake, traders also need a plan in place to quickly respond to emotional outbursts and trading disasters. I know it is easier said than done, but with time and discipline, you can master it. You really can! Take a walk or go for a run to help clear your mind. The market will always be there. You can come back to it. And, of course, you must accept that some things are simply well beyond your control.

Dr. Elder states that to succeed in trading, you need both confidence and caution: having only one is dangerous. If you're confident but not cautious, you'll be arrogant, and that's a deadly trait for traders. If you are cautious but have no confidence, you will not be able to pull the trigger.

New traders should start small. First you get good, then you get fast! Don't worry too much about the commissions. I know they are eating away your small profits, but as a new trader you are not at the stage yet where your focus should be on making money. Just try to properly execute the right trades and follow the process. I can't emphasize

enough how irrelevant the actual results of trades or your profit and loss are at the beginning. Commissions are simply part of the tuition you have to pay for this career. Try to focus on managing your emotions and your feelings, because somehow you truly do have to find a way to manage the inevitable losing streaks.

Gambler's Fallacy

Reduce your share size when your account is dropping. If you experience a series of losses, your account will obviously be dropping, and you need to reduce your share size. That is the complete opposite of how gamblers think. Gamblers often increase their bets when they're in a losing streak. This comes from the mistaken belief that if something happens more frequently than normal during one period of time, it must happen less frequently in the future. It is very common among roulette players in casinos to bet $10 on one color (either black or red), and if they lose, they bet $20 on the same color, because they think now the odds are in their favor. If they lose again, they bet $40, and so on and so forth, with the hope that the more they lose on black, the higher the chances that black will win. They're quite simply wrong.

Statistically speaking, when you make a trade and lose, it does not mean that the probability that your next trade will be a winner is higher. Each trade is independent from the others, and all that is really increasing is your level of stress and psychological pressure. The most famous example of this gambler's fallacy occurred in a game of roulette at the Monte Carlo Casino in Monaco on August 18, 1913, when the ball fell in black 26 times in a row. This was an extremely uncommon occurrence, with a probability of around 1 in 136.8 million. Gamblers lost millions of Monégasque francs betting against black, reasoning incorrectly that the losing streak was increasing the chance of hitting red with the next spin.

There are a number of schools of thought regarding gambling and day trading. Some people believe they are quite similar and some people believe they are very different. I personally fall into the latter side of the question. Let's use blackjack as an example. I've read it's one of the most widely played games in casinos around the world. In blackjack, there is no emotion for you or the dealer. The rules are set by the number of cards, and their value is fixed, and at most casinos the dealer must hit themself on what's called a "soft 17". You have no control over the game. In trading, the more trades that you take, the more emotional you become.

It is extremely important for new traders to ignore time-based profit targets at the beginning. You should not set a daily or weekly goal

such as making $200 a day or $1,000 a week. Why? Because if you do, and you cannot get close to your target, you'll start taking trades that you shouldn't, or you'll start increasing your share size with the hope of meeting your profit goal. These types of moves should be avoided at all times and in all circumstances. First you get good, then you get fast!

I had a trader email me once to advise that he was pausing trading after only a few weeks of going live. As I had suggested, he was initially taking trades with only small size. He informed me that he was indeed making money in most of his trades, but he was still in the negative because of all of the commissions and fees he was paying. He then decided to increase his share size too much and too early and that's when his problems started. I cannot emphasize enough to you how unimportant the results are from your first six months of trading. They do not matter. During these first months, you are building the foundation for a lifetime career. Do you think in year ten that your results in your first six months will be significant?

While there is no one right way to make money trading, there is only one right way to begin your trading career. When you first begin, you must focus on the process of trading, not on how to make money for a living. You must allow at least eight to twelve months before you will become consistently profitable. If you are not willing or are unable to do this, then you should find another career. Some are not able to either financially or psychologically commit this much time to this pursuit. If this is the case, then again, you should find another profession.

Chapter 8:
Conclusion and Final Words

This book expands on some of the simple yet effective and straightforward trading strategies that I use every day. This book's purpose is to show you what my own day trading journey looks like. It is not meant by any means to be a stand-alone book. You are not a trader just because you read my book, or anyone else's book for that matter. There are other strategies and there are other styles of trading, and all can be right. There is definitely more than one way to learn trading, and for certain there is more than one correct way.

The most important takeaway from this book is to know whether or not day trading is for you. Day trading requires a certain mindset, as well as a discipline and a set of skills that not everyone possesses. Interestingly, most of the traders I know are also poker players. They enjoy speculation and the stimulation that comes from it. Although poker is a type of gambling, in my opinion, as I just touched upon in the previous section, day trading is definitely not. Day trading is a science, a skill, and a career, and it has nothing to do with gambling. It is the serious business of selling and buying stocks, at times in a matter of seconds. You should be able to make decisions quickly, with no emotion or hesitation. Doing otherwise results in losing real money.

This book equips you with some more advanced knowledge about day trading, but you still have a long way to go. Can you be a mechanic by just reading a book or two? Can you perform surgery after reading a book or taking First Aid 101? No. This book develops a foundation that you can build upon.

I encourage you to read more books and find online or in-person courses on day trading. Our community is only one of the many available resources online, and it certainly is not the largest and most famous one. Although you are welcome to join our community, this book is not written to channel an audience to our website in order to generate more revenue. In this book I tried to explain as clearly as possible in a written format my thought process when trading. Some people saw my previous book, *How to Day Trade for a Living*, as a marketing scheme to cross-promote my courses, software and chatroom membership. I am sure there will again be some people who see that with this book. Truth be told, although I do teach and provide some day trading services, this book is not intended to be a tool for

marketing them.

An unknown reader of my previous book wrote this review, reproduced below as Figure 8.1:

"The book started off very informative but soon it became redundant and repetitive. I particularly don't like the author advertising his own website/ online chat room (which charges money if you wanna use it) in the book. And I don't like the author spending two pages talking about how a trader should eat nutritional meals and exercises blah blah blah. Just be brief and don't waste readers' time."

Figure 8.1 - What a reader did not like about my first book.

Seven people found that review helpful. In my previous book, I emphasized how difficult a day trading career is and the potential risks involved in trading. Some readers, such as D. Carroll, did not like this approach, as set out in Figure 8.2 below:

"Book was very negative, depressing. Stopped reading it because of the constant reminder of failure."

Figure 8.2 - What a different reader did not like about my first book.

Five people found that comment helpful as well.

New traders often search for the best traders to learn from. They think that learning from the most experienced traders is the best way to learn. On the contrary, I think new traders should look for the best "teacher". There is a difference. Sometimes the best trader lacks in personality or has poor people skills, while a trader who is consistently profitable (but not one of the top ten) can emerge as a premier lecturer, communicator, and mentor. New traders need to find the best teacher. You don't need to learn from the best traders to become the best trader. Think about who some of the best professional sports coaches are. Often they were not superstar players. They knew the sport, but their passion was for teaching and developing players. The skills needed to become a great trader are different from those required to be an effective trading coach. Being a star trader requires superior pattern recognition and discipline. On the other hand, effective trading coaches are often obsessed with finding better ways to teach, are patient, and communicate clearly and effectively in a simple and easy-to-understand language. They can explain their methodology coherently. Often great traders lack the monetary incentive to create the best training program.

I always recommend to new traders that they start their trading in a simulator. I believe new traders should never start their day trading career with real money. You can sign up with one of the brokers or service providers that provide you with simulated accounts with real market data. Some brokers give you access to delayed market data, but that is not very useful. You need to make decisions in real time. Most of the simulated data software is a paid service, so you need to save some money for that software. DAS Trader offers the best simulated accounts for $150 per month (at the time of writing). Check out their website (www.dastrader.com) or contact them at *support@dastrader.com* for more information. This, by the way, completes my unpaid and unsolicited advertisement for them!

Trading education costs might be annoying at the beginning and seem unbearable, but they really are not that onerous when you consider trading as a new business or career. If you use a simulator for six months, and trade only with simulated money, it will cost you somewhere around $1,000. This is the cost of a proper education. If you are seriously considering day trading as a career, it's a small expenditure compared to the cost of an education for a new profession. For example, imagine that you want to go to school to get an MBA - it will easily cost you over $50,000. Likewise, many other diploma or post-graduation programs cost significantly more than the education required for day trading.

When in the simulator, practice with the amounts of money that you will be trading in real life. Should you use DAS Trader, you can define your buying power in their simulator. For example, if you plan to trade with $10,000 in your real account, you can then set your simulator to $10,000. It is easy to buy a position worth $100,000 in a simulated account and watch it lose half of its value in a matter of seconds. But could you tolerate this loss in a real account? No. You would probably become an emotional trader and make a quick and rash decision, which almost always results in a major loss. Similarly, it is easy to buy a large size with an imaginary $100,000 cash and make a $5,000 profit every day. You'll start to feel that you can easily make a few grand a day, when in reality you actually plan to start trading with an account of only $5,000.

Always trade in the simulator with the size and position that you will be using in your real account. If you don't, there is no point in trading in a simulated account. Move to a real account only after at least three months of training with a simulated account, and then start small, with real money. Trade small while you're learning or when you are feeling stressed. As I recounted in Chapter 1, not too long ago a trader emailed me, explained his bad results, and asked for my advice. I

encouraged him to switch to a simulator for a while so we could identify his problem. He replied, and I quote his exact words:

"I never traded in a simulator. I cannot afford to earn fake money for 3 months."

If you, as a reader of this book, are wondering about some aspect of day trading or are struggling with a specific issue, please don't hesitate to have a chat with me in our chatroom. I'm always happy to give some advice and guidance to colleagues.

New traders often skip some or all of the above-referenced steps in the process and lose their money very fast. Many curse the market and give up their day trading career forever, wondering if it is ever possible to make money by day trading. Remember, take baby steps in life. No toddler starts out by running a marathon. Success in day trading is one foot forward and then the next. Master one topic, and then, and only then, move on to the next.

Most traders struggle when they first begin, and many do not have sufficient time in the morning to practice in real time. Those who can give trading more time when they start have a better chance to succeed. How long does it take to be a consistently profitable trader? I don't think anyone can become a consistently profitable trader in less than three or four months. After four months of paper trading, you need at least another three months of trading with your real money in small share size to master your emotions. After six months, you may become a seasoned trader. Eight months is probably better than six months, and twelve months is perhaps better than both. Are you patient enough for this learning curve? Do you really want this career? Then you should be patient enough. Do you have this much time to learn the day trading profession?

It always amuses me when I see books or online courses and websites that offer trading education that will make a person money starting on day one! I wonder who would believe such advertisements.

You must define a sensible process oriented goal for yourself, such as: *I want to learn how to day trade. I do not want to make a living out of it for now*. Do not set an absolute income for yourself in day trading, not for at least the first two years. This is very important. Many traders think of inspiring goals such as making a million dollars or being able to trade for a living from a beach house in the Caribbean. These goals may be motivating, and they definitely have their place, but they distract you from focusing on what you need to do today and tomorrow to become better. What you as a new trader can control is the process of trading: how to make and execute sound trading decisions. Your daily goal should be to trade well, not to make money.

The normal uncertainty of the market will result in some days or weeks being in the red.

Often new traders email me and ask how they can become full-time traders while they are working at a different job from 9 a.m. to 5 p.m. New York time. I really don't have any answer for that. They probably cannot become a full-time trader if they cannot trade in real time between 9:30 and 11:30 a.m. New York time. You do not need to have the whole day available for trading, but you at least need to be available for the first two hours following when the market opens. If you insist, I would say the first one hour following market Open (9:30 to 10:30 a.m. New York time) is the absolute minimum time you should be available for real trading or practice, in addition to any time you need for preparation before the market opens at 9:30 a.m. Sometimes I am done with trading and hit my daily goal by 9:45 a.m., but sometimes I need to watch the market longer to find trading opportunities. Do you have this flexibility in your work-life schedule? If not, you could consider trading in the currency market (Forex) because that market is open 24 hours a day, closing only on the weekends.

Trading is a full contact sport. You are competing with the sharpest minds on the planet. Traders all around the world, at their home offices, or in the proprietary Wall Street firms, are all sitting behind the most sophisticated tools imaginable, ready to take your money. Anything less than your full effort and attention is disrespectful and will very likely result in your trading account suffering a heavy and tragic loss.

You need to take trading seriously. Day trading is not a casual activity. For those who think it's cool to know a few things about the markets before jumping in, but nothing more, it always ends in regret. For those who cannot devote the necessary time, there are other kinds of trading that are not quite as demanding as day trading, such as the currency market, and that might be a better fit for people whose schedules cannot accommodate the intense commitment that day trading requires. So, in a nutshell, do it right or just don't bother doing it. If you can't do day trading, that's okay. You don't have to do it, and you can always look for another challenge that complements your budget and/or schedule. I feel obligated though to warn every reader of this book that it is very easy to lose your life savings when day trading. As I wrote at the beginning of this paragraph, you need to take trading seriously.

A very excited Trader Dwight emailed me to share his trading endeavor. The first part of his email is reproduced below as Figure 8.3. He is passionate about trading and he is working hard to save

more capital for it, but his schedule does not allow him to properly focus on day trading. Let's read this excerpt from his email together, as it's both educational as well as entertaining:

"Hello Andrew,

"I purchased your audible Version 4 from amazon and started to listen to it as I do my morning deliveries. First day of listening I was hungry to learn more. So I stop all trading in my account……I continued to listen.

"I work for a plumbing supply in N.Y.C. and start my day roughly around 7 a.m. I was active with real $$$ on Scottrade since March 2017 and have been doing due diligence at night and trading during the day and was fortunate to be one of the lucky ones to make some gains. (Roughly from 2k to 5k). Now this is all happening as I drive the streets of New York delivering supplies. Sometimes stuck in traffic I can make a trade, and if I need to I pull over to watch Level 2 and make a trade or two. I have been doing straight kamikaze instead of Guerrilla warfare. Lol.

"I started to lose these gains and felt I had no control and realized I was lucky. This is where I am at now in writing to you……Today as I finished listening to the book (which I will listen to again in front of my desktop to follow all your charts and examples I missed while I was driving and listening to the audible), I started to map out and set goals for the next 12 to 18 months. I keep saying to myself, "how will I be able to learn on a simulator live time when I am driving during these hours?" I have evenings to educate myself which I will continue to do, but how will I be able to manage this hump? …

"Thanks for taking the time to read this. Enjoy your weekend."

Figure 8.3 - Excerpt from Trader Dwight email.

His story is an excellent example of why you should not even try day trading if you cannot dedicate sufficient time and energy to it. You don't open a restaurant only because you may have some time during the week to run it. No, you need to be able to run it perfectly or else you are destined to fail. As I mentioned near the beginning of this book, I was unemployed when I started day trading. Then I had to find a job to pay the bills because I was losing my savings on day trading. I am lucky that I live in Vancouver, Canada (in the Pacific Time Zone), because I could trade and practice between 6:30 and 8:30 a.m. and then be at work for 9 a.m. If you don't have this luxury, maybe swing trading is better for you.

However, please note that making a living out of swing trading is even more difficult. The best swing traders can expect an annual return of 15 to 20% on their account size. Day traders, on the other hand, look

to profit between 0.5-1% of their account size daily. The currency market (Forex) is open 24 hours/5 days per week, and perhaps you should consider trading currencies and commodities if you do not have sufficient free time to practice day trading or swing trading. This book, though, is not a useful guide for swing trading or for the Forex market. They are both different from day trading in so many ways. My longtime friend, Zack Zarr, is helping Forex traders in our community by sharing his trades and analysis of the market. He is also the author of an excellent Forex trading book.

You must always be continuing your education and reflecting upon your trading strategy. Never stop learning about the stock market. The market is a dynamic environment and it's constantly changing. Day trading is different than it was ten years ago, and it will be different in another ten years. So keep reading and discussing your progress and performance with your mentors and other traders. Always think ahead and maintain a progressive and winning attitude.

Learn as much as you can, but keep a degree of healthy skepticism about everything, including this book. Ask questions, and do not accept experts at their word. Consistently profitable traders constantly evaluate their trading system. They make adjustments every month, every day, and even intraday. Every day is new. It is about developing trading skills, discipline, and controlling emotions, and then making adjustments continually.

Traders who are regularly profitable have studied the fundamentals of trading and have learned how to make logical and intelligent trades. Their focus is on the rationale for their actions rather than on making money. Amateurs, on the other hand, are focused on making money every single day. That kind of thinking can be their worst enemy. I am not consciously trying to make money as a trader. My focus is on "doing the right thing". I am looking for excellent risk/reward opportunities, and then I trade them. Being good at trading is the result of mastering the skills of trading and recognizing the fundamentals of a good trade. Money is just the by-product of executing fundamentally solid trades.

As a new trader, you will be constantly looking at your profit and loss (P&L). P&L is the most emotionally distracting column in my trading platform. *"Plus $250, negative $475, plus $1,100."* I tend to make irrational decisions by looking at it. I used to panic and sell my position when my P&L became negative although my trade was still valid according to my plan. Or, quite often, I became greedy and sold my winning position too early while my profit target had yet to be reached according to my plan. I eventually did myself a favor and I hid my P&L column. I trade based on technical levels and the plan I

make. I don't look at how much I am up or down in real time. P&L is not important when novices first begin trading with real money, especially when smaller share sizes are involved. Most trading platforms include an option to hide real time P&L. When this is not available, a strategically-placed strip of ever-versatile duct tape or dark-colored masking tape will conceal that information. Your goal is to develop trading skills and not to make money. You have to focus on getting better every single day, one trade after another. Push your comfort zone to find greater success.

Hard work in day trading is different from what you might initially assume. A trader should not work 120 hours a week like investment bankers or corporate lawyers or other highly paid professionals do because, for us day traders, there are no year-end bonuses (that are often distributed in a completely biased fashion anyway). More than anything else, day trading is perhaps most similar to being a professional athlete because it is judged by each day's performance. Nevertheless, day traders should work hard, consistently and productively, each and every day. Watching your trading screens intently and gathering important market information is how we define hard work in day trading. You must ask the following questions constantly and at a rapid pace for several hours every day:

- Who is in control of the price: the buyers or the sellers?
- What technical levels are most important?
- Is this stock stronger or weaker than the market?
- Where is most of the volume being traded? At the VWAP? In the first five minutes? Near moving averages?
- How much volume at a price causes the stock to move up or down?
- What is the bid-ask spread? Is it tradeable?
- How quickly does the stock move? Is it being traded smoothly or is it choppy, jumping up and down with every trade?
- Is the stock trading in a particular pattern on a 5-minute chart? How is the stock being traded on a 1-minute chart?

These are some of the questions that I ask myself and then answer before trading a stock. All of this information should be gathered before you make any trade. This is what I mean by hard work. As you can see, day trading is an intense intellectual pursuit which requires hard work.

It is essential to get into a routine of showing up every day to trade, whether it is with your real account or in a simulator. Searching for support and resistance levels each day, including before the market opens, will benefit your trading in the long run. Turning off your PC

early after a few bad trades is a strategy that should be reserved for rare occasions when it is absolutely essential to give your brain a break. Usually, spending some time in a simulator after some losses will clear your mind sufficiently. Novice traders using their simulator should keep on trading and practicing until the Close. After all, trading in the simulator is not nearly as stressful as real trading with real money. But, remember, using a simulator with no commission and no P&L is still no excuse for overtrading. At all times the focus must be on sound strategies with excellent risk/reward opportunities.

From time to time I am asked, "*In your first months of trading, did you ever feel like you couldn't do it?*" The answer is: "*Yes, and often!*" I still, at least once a month, get really frustrated after a few bad losses and consider quitting day trading. Frequently in my trading career I have wanted to quit, and at times I have actually believed the myth that day trading is impossible. But I did not quit. I really wanted to be a successful trader and to have the lifestyle and the freedom that come with it. So I paid the price for my mistakes, focused on my education, and eventually survived the very difficult learning curve of trading.

Success in trading comes with skill development and self-discipline. Trading principles are easy, and day trading strategies are very simple. I have a PhD in chemical engineering and have worked as a research scientist at a world-class facility. I have published numerous scholarly publications in high impact and respected scientific journals on my nanotechnology and complicated molecular level research. Believe me, I had to study and understand extremely more difficult concepts, so I can assure you that day trading, in theory at least, is easy.

What makes day trading, or any type of trading for that matter, difficult is the discipline and self-control that you need. You have no chance to make money as a trader without discipline, no matter your style, the time you commit to trading, the country you live in, or the market you are trading in.

Professional institutional traders often perform significantly better than private retail traders. Most private traders are university-educated, literate people. They are often business owners or professionals. In contrast, typical institutional traders are loud 20-something-year-old cowboys who used to play rugby in college and haven't read a book in years. How's that for a generalization! Why do these guys outperform private traders year after year? It's not because they are younger or sharper or faster. And it's not because of their training or platforms, because most retail traders have almost the same gear as they do. The answer is the strictly enforced discipline of trading firms.

Some successful institutional traders have gone out on their own after asking themselves, "*Why am I sharing my profits with the firm when I know how to trade and could be keeping all of the profit for myself?*" Most of them end up losing money as private traders. Even though they work with the same software and platforms, trade the same systems, and stay in touch with their contacts, they still fail. After a few months, most of them are back at a recruiting office, looking for a trading job. Why could those traders make money for their firms, but not for themselves?

The answer is self-discipline.

When institutional traders quit their firm, they leave behind their manager and all of the strictly enforced risk control rules. A trader who violates risk limits is fired immediately. Traders who leave institutions may know how to trade, but their discipline is often external, not internal. They quickly lose money without their managers because they have developed no self-discipline.

We private retail traders can break any rule and change our plan in the middle of a trade. We can average down to a losing position, we can constantly break the rules, and no one will notice. Managers in trading firms, though, are quick to get rid of impulsive people who break any trading rule for a second time. This creates a serious discipline problem for institutional traders. Strict external discipline saves institutional traders from heavy losses and deadly sins (such as the averaging down of a losing position), which quite often will destroy many private accounts.

Discipline means you execute your plan and honor your stop loss as you set it out, without altering it in the middle of a trade. Discipline is executing your detailed plan every single time. If your plan is to buy a stock at VWAP and your stop loss is if it fails to hold VWAP, then you must accept the loss immediately and get out of the trade if the stock fails to hold the VWAP.

Do not be stubborn about your decision if you are wrong. The market does not reward stubbornness. The market is not interested in how you wish stocks would trade. Traders must adapt to the market and do what the market demands. And that is the way day trading works and that is how it will always work.

There are going to be days when you follow your plan, and then the stock will go back up and trade above VWAP after you were stopped out. In fact, there will be many times such as this in your trading career. But consider these two points: (1) Do not judge your trading strategy based upon one trade. Executing your plan, and being disciplined, will lead to long-term success. Many times your plan will

be fine and solid, but a hedge fund manager out of nowhere will decide to liquidate a position in a stock that you are trading, the price will drop suddenly, and you will get stopped out. You did not do anything wrong; it is the nature of the market that is unpredictable. At times, the uncertainty of the market will leave you in the red. (2) A professional trader accepts the loss and gets out of the trade. You then re-evaluate and plan another if-then scenario (please see the Glossary at the back of this book for a brief description if you are not familiar with this term). You can always get back into the stock. Commissions are cheap (for most of the brokers), and professionals often take several quick stabs at a trade before it will start running in their favor.

Trading teaches you a great deal about yourself, about your mental weaknesses and about your strengths. This alone ensures that trading is a valuable life experience.

Final Words

You need to practice. You need experience deciphering market patterns. Every day is a new game and a new puzzle to solve. Showing up every day is important. Many people believe that trading can be reduced to a few rules that they can follow every morning. Always do this or always do that. In reality, trading isn't about "always" at all; it is about each situation and each trade. You must learn how to think in day trading, and that is no easy task.

You must start recognizing patterns and developing trading strategies. And these strategies must be practiced in real time and under stress. Trading in simulators can help and is absolutely necessary, but there is no substitute for trading with your real hard–earned cash where your results actually matter.

When you begin as a trader, you most likely will be horrible. As I mentioned not too many pages ago, many times at the beginning of my career I came to the conclusion that day trading was not for me. Even now that I am an experienced and profitable trader, there is at least one day almost every month that I wonder if I can trade in this market any longer. Of course, this feeling of disappointment goes away faster these days, usually after the next good trade. But for you, because you have not seen success yet, surviving the learning curve is very difficult. I know that. However, this does not mean you should lose a lot of money when you trade live at the beginning. Trading in the simulators will help to prepare you for real trading with real money.

If you are signing up for a training course or mentorship program, you should very carefully read about their plan. A good training program will encourage you to trade only the easiest setups when you start and will walk you through the trading process slowly and methodically. But most importantly, it must teach you how to think as a trader, rather than merely give you some rules and alerts. There are big differences between a trading community, an educational course and an alert service.

New traders often expect to make money immediately, and when they don't, they let this affect their work. When they do not see the results that they expected, they start to focus on the wrong things. Some increase their share size, hoping that this will help them make more money. Many will not prepare as thoroughly as they should because they become discouraged. They ask themselves, "*What is the point of preparing hard if I cannot make money?*" They start to take chances that a successful and experienced trader would never take. They become

gamblers. This leads to even more significant losses and only adds to their problems.

While there is no one right way to make money by trading, there is only one right way to begin your trading career. When you first begin, you must focus on the process of trading, not on how to make money for a living. You must allow at least eight to twelve months before you will become consistently profitable. If you are unwilling or unable to do this, then you should find another career. Some are not able to either financially or psychologically commit this much time to this pursuit. If this is the case, then again, you should find another profession.

Again, I cannot emphasize enough to you how unimportant the results are from your first six months of trading. They do not matter. During these first months, you are building the foundation for a lifetime career. Do you think in year ten that your results in your first six months will be significant?

Becoming a consistently profitable trader could turn out to be the hardest thing you will ever do. The intensive training process that you must follow takes eight to twelve months and requires much hard work. It will enable you to find out how good you can be, but to do that you need to genuinely believe that you will become great.

All of us have mental weaknesses that we must conquer. If we stubbornly insist on trying to prove to the market that we are right, we will pay a high price. Some traders cannot accept a loss and exit stocks that trade against them. Some take small profits, prematurely, instead of waiting for the final profit target. Some are afraid to make a decision to enter a trade, even with an excellent risk/reward ratio that they recognize. The only way to get better is to work on your weaknesses.

There is no shame in failing as a trader. The real shame is in not pursuing your dreams. If you are passionate about trading, or anything else, and never try it, then you will live your life wondering what might have been. Life is too short not to embrace new challenges. To take on any challenge in life and fail is very honorable. If you have the courage to take a chance and day trade, that decision will serve you well later in life. The next career change or challenge you accept might be the one that works out for you, and what you learn about yourself in the process can be invaluable.

Last but not least, if you enjoyed reading this book and found it useful, I would very much appreciate your taking a few minutes to write a review on the Amazon website. The success of a book like this is based on honest reviews, and I will consider your comments in

making revisions. If you have any feedback, feel free to send me an email. Your review on Amazon will help other people to make informed decisions about my book. I purposely priced it low so more people would be able to purchase it and use it. Teaching people and helping them to start a new career fulfills something inside of me that motivates me every day, so I hope you can help me to accomplish this task of ongoing learning.

If you're ever interested in connecting with me, check out our chatroom at www.BearBullTraders.com or send me an email at andrew@BearBullTraders.com. I'd be happy to have a chat with you.

Thank you, and happy trading!

Glossary

A

Alpha stock: a Stock in Play, a stock that is moving independently of both the overall market and its sector, the market is not able to control it, these are the stocks day traders look for.

Angel: an Angel is a low float stock (usually less than twenty million shares) that has gapped up significantly due to important fundamental news, the stock will be trading heavily in the pre-market with often over one million shares before the Open, with low float stocks the trading volume is the key, if the stock does not have much volume, no matter how much it has gapped up, or what the float really is, you should stay away from it.

Ask: also called the offer, the price sellers are demanding in order to sell their stock, it's always higher than the bid price.

Average daily volume: the average number of shares traded each day in a particular stock, I don't trade stocks with an average daily volume of less than 500,000 shares, as a day trader you need sufficient liquidity to be able to get in and out of the stock without difficulty.

Average True Range/ATR: how large of a range in price a particular stock has on average each day, I look for an ATR of at least 50 cents, which means the price of the stock will move at least 50 cents most days.

Averaging down: adding more shares to your losing position in order to lower the average cost of your position, with the hope of selling it at break-even in the next rally in your favor, as a day trader, don't do it, do not average down, ever, a full explanation is provided in this book, to be a successful day trader you must avoid the urge to average down.

B

Bear: a seller or short seller of stock, if you hear the market is bear it means the entire stock market is losing value because the sellers or short sellers are selling their stocks, in other words, the sellers are in control.

Bearish candlestick: a candlestick with a big filled body demonstrating that the open was at a high and the close was at a low,

it tells you that the sellers are in control of the price and it is not a good time to buy, the right-hand side of Figure 5.1 includes an image of a bearish candlestick.

Bearish Engulfing Pattern: occurs at the end of an uptrend and may signal an important reversal, a Bearish Engulfing Pattern is formed by two candlesticks, the first candlestick consists of a small body, the second candlestick opens higher than the previous candlestick's close and closes lower than the previous bar's open, thus engulfing the first candlestick, Figure 5.8 demonstrates a Bearish Engulfing Pattern.

Bid: the price people are willing to pay to purchase a stock at a particular time, it's always lower than the ask (or offer) price.

Bid-ask spread: the difference between what people are willing to pay to purchase a particular stock and what other people are demanding in order to sell that stock at any given moment, it can change throughout the trading day.

Block order/block trade: an order or trade submitted for the sale or purchase of a large quantity of shares being traded at an arranged price between two parties, sometimes outside of the open markets to lessen the impact on the price of the stock, in general, 10,000 shares of stock and more, not including stocks lower than $10, or $200,000 worth of stocks, are considered a block trade, block trades often happen at the previous day close price.

Bracket order: allows you to set both a stop loss and a target price and then, when one of the prices is triggered, the other order is cancelled, the first part of the order (the stop loss) is set below the market price while the second part (the profit target) is set above the market price, this is a great way to let a trade pan out without having to actively manage it, it can also be referred to as a One-Cancels-the-Other order (OCO) or as a Stop Range order.

Broker: the company who buys and sells stocks for you at the exchange, for day trading, because you require fast order execution, you really must use what is called a direct-access broker, conventional online brokers, also known as full-service brokers, provide considerably more investment advice, tax tips, retirement planning and such, but generally do not offer the necessary fast order execution, and are therefore more suited for investors and retail swing traders.

Bull: a buyer of stock, if you hear the market is bull it means the entire stock market is gaining value because the buyers are purchasing stocks, in other words, the buyers are in control.

Bull Flag: a type of candlestick pattern that resembles a flag on a

pole, you will see several large candles going up (like a pole) and a series of small candles moving sideways (like a flag), which day traders call consolidating, you will usually miss the first Bull Flag but your scanner will alert you to it and you can then be ready for the second Bull Flag, you can see an example of a Bull Flag formation in Figure 6.20.

Bullish candlestick: a candlestick with a large body toward the upside, it tells you that the buyers are in control of the price and will likely keep pushing the price up, the left-hand side of Figure 5.1 includes an image of a bullish candlestick.

Bullish Engulfing Pattern: forms when a candlestick bar opens lower than the previous candlestick's close and closes higher than the previous candlestick's open, as shown conceptually in Figure 5.7, the pattern begins with a candlestick bar that has a small body and is followed by a candlestick bar whose body "engulfs" the previous candlestick's body, this pattern represents a major defeat so to speak for the sellers and/or short sellers (the bears).

Buying long: buying a stock in the hope that its price will go higher.

Buying power: the capital (money) in your account with your broker plus the leverage they provide you, for example, my broker gives me a leverage of 4:1, if I have $25,000 in my account, I can actually trade up to $100,000.

Buyout gap: very common in the market but not tradeable, when one company acquires another company the price is determined and usually there is no longer any volatility in the price for you to trade on, for example a company may close one day trading with a share price of $8, it will be acquired later that day at an acquisition price of $10 and start trading the next day at around $10, that is a 25% buyout gap, but it's not tradeable.

C

Candlestick: a very common way to chart the price of stocks, it allows you to easily see the opening price, the highest price in a given time period, the lowest price in that time period and the closing price value for each time period you wish to display, some people prefer using other methods of charting, I quite like candlesticks because they are an easy-to-decipher picture of the price action, you can easily compare the relationship between the open and close as well as the high and the low price, you can see examples of bearish and bullish candlesticks in Figure 5.1.

Chasing the stock: wise day traders never chase stocks, you chase a

stock when you try to purchase shares while the price is increasing significantly, successful day traders aim to enter the trade during the quiet times and take their profits during the volatile times, when you see a stock surging up, you patiently wait for the consolidation period, patience truly is a virtue!

Chatroom: a community of traders, many can be found on the Internet, as a reader of this book you are welcome to join our www.BearBullTraders.com chatroom.

Choppy price action: stocks trading with very high frequency and small movements of price, day traders avoid stocks with choppy price action, they are being controlled by the institutional traders of Wall Street.

Circuit breaker halt: triggered by up or down moves outside of certain bands which are determined based on the price of the stock and its listing condition, the exact threshold varies for different stocks but typically a 15% rise in a company's share price over five minutes can cause a circuit breaker halt, although day traders love volatility in the market, this kind of volatility is dangerous for the market and most importantly for investors, at times when breaking news is released, volatility will increase significantly due to the confusion it has caused, to stabilize the market and to protect investors, the exchanges and the authorities may limit the excessive volatility of the price in either direction by temporarily halting trading of the individual stock, the U.S. Securities and Exchange Commission (SEC) has defined a “limit-up” and “limit-down” to determine the thresholds for acceptable trading, usually these halts are for 5 minutes and then trading is resumed but if volatility remains in the price, the exchange will continue to halt trading in the stock until the price volatility returns back into the acceptable threshold.

Close: the last hour the stock market is open, 3 to 4 p.m. New York time, the daily closing prices tend to reflect the opinion of Wall Street traders on the value of stocks.

Consolidation period: this happens when the traders who bought stocks at a lower price are selling and taking their profits while at the same time the price of the stock is not sharply decreasing because buyers are still entering into trades and the sellers are not yet in control of the price.

D

Day trading: the serious business of trading stocks that are moving in a relatively predictable manner, all of your trading is done during one trading day, you do not hold any stocks overnight, any stocks you purchase during the day must be sold by the end of the trading day.

Direct-access broker: day traders need a fast and flawless order execution as their entry and exit are often only literally one or two seconds apart, direct-access brokers concentrate on speed and order execution, they often use complicated computer software that allows traders to trade directly with stock exchanges such as the Nasdaq and NYSE, direct-access trading system transactions are executed in a fraction of a second and their confirmations are instantly displayed on the trader's computer screen.

Discretionary trading: discretionary traders evaluate potential trades based on their trading plan, using technical analysis to determine if each trade meets their requirements, although the discretionary trader's rules are known, the trader decides to take or pass on trades based on their experience, the discretionary trader doesn't follow a firm algorithm such as, "If A, then B", instead they weigh all available information and then make a call.

Doji: an important candlestick pattern that comes in various shapes or forms but are all characterized by having either no body or a very small body, a Doji indicates indecision and means that a fight is underway between the buyers and the sellers, you can see examples of Doji candlesticks in Figure 5.2.

Dow Jones Industrial Average: also called the Industrial Average, the Dow Jones, the Dow 30, INDU$, DJIA or simply the Dow, it's the most cited stock market index of all, it is one of several indices created by *Wall Street Journal* editor and Dow Jones & Company co-founder Charles Dow, it's an index that tracks how thirty large publicly owned companies based in the United States have traded during a standard trading session in the stock market, the Industrial portion of the name is largely historical as many of the "modern" thirty companies that are indexed (such as Apple, Coca-Cola and Visa) have little or nothing to do with traditional heavy industry.

E

Emotional trading: a very broad term that can apply to a wide range of situations, it basically means basing trades on emotion rather than on rational thought, you need to enter each trade with a well-thought-out plan and then stick to it, you need to stick to your trading plans like glue, you cannot allow your emotions to get the better of you in the midst of a trade.

Entry point: when you recognize a pattern developing on your charts, your entry point is where you enter the trade.

Exchange-traded fund/ETF: an investment fund traded on the exchange and composed of assets such as stocks or bonds.

Exit point: as you plan your trade, you decide your entry point, where you will enter the trade, and you decide where you will exit the trade, if you do not exit properly you will turn a winning trade into a losing trade, whatever you do, don't be stubborn, if a trade goes against you, exit gracefully and accept a loss, don't risk even more money just to prove a point, the markets can be unpredictable.

Exponential Moving Average/EMA: a form of moving average where more weight is given to the most currently available data, it accordingly reflects the latest fluctuations in the price of a stock more than the other moving averages do.

F

Float: the number of shares in a particular company available for trading, for example, as of May 13, 2018, Apple Inc. had 4.92 billion shares available.

Forex: the global foreign exchange market where traders – but not day traders – trade currencies.

Former runner: a low float stock that makes significant price moves in the pre-market due to heavy volume, usually brought about because of a fundamental catalyst.

Full-service broker: conventional online brokers usually direct customer trade orders to market makers and other liquidity providers through pre-negotiated order flow arrangements, this multi-step process often takes time (from a few seconds to several minutes), these brokers often do not offer a super-fast execution as their services tend to place a greater emphasis on research and fundamental analysis functions over speed execution, full-service brokers provide research and advice, retirement planning, tax tips, etc., they're usually well-suited for investors and retail swing traders but due to the lack of speed execution they are not a good choice for day traders.

Fundamental catalyst: this is what you as a day trader are looking for, some positive or negative news associated with a stock such as an FDA approval or disapproval, a restructuring, a merger or an acquisition, something significant that will impact the stock's price during the trading day.

Futures: futures trading is when you trade a contract for an asset or a commodity (such as oil, lumber, wheat, currencies, interest rates) with a price set today but for the product to not be delivered and purchased until a future date, you can earn a profit if you can correctly predict the direction the price of a certain item will be at on a future date, day traders do not trade in futures.

G

Gappers watchlist: before the market opens, you can tell which stocks are gapping up or down in price, you then search for the fundamental catalysts that explain these price swings, and you build a list of stocks that you will monitor that day for specific day trading opportunities, the final version of your watchlist generally has only three to five stocks on it that you will be carefully monitoring when the market opens, also called simply your watchlist.

Guerrilla trading: what day traders do, it's like guerrilla warfare, you wait for an opportunity to move in and out of the financial battlefield in a short period of time to generate quick profits while keeping your risk to a minimum.

H

Higher highs and higher lows: a powerful chart pattern, it's comprised of two candlesticks, with the high of the second candlestick being higher than the high of the previous one, similarly, the low of the second candlestick is higher than the low of the previous one, as conceptually shown on the left-hand side of Figure 5.5, as a Higher Highs and Higher Lows Pattern unfolds, the buyers are more aggressive and constantly making new highs (compared to previous candlesticks), and the sellers are not strong enough to push the price any lower than the previous candlestick, it's a very bullish trend.

High frequency trading/HFT: the type of trading the computer programmers on Wall Street work away at, creating algorithms and secret formulas to try to manipulate the market, although HFT should be respected, there's no need for day traders to fear it.

High relative volume: what day traders look for in Stocks in Play, stocks that are trading at a volume above their average and above their sector, they are acting independently of their sector and the overall market.

Hotkey: a virtual necessity for day traders, Hotkeys are key commands that you program to automatically send instructions to your broker by touching a combination of keys on your keyboard, they eliminate the need for a mouse or any sort of manual entry, high speed trading requires Hotkeys and you should practice using them in real time in a simulator before risking your real money.

I

If-then statement/scenario: before the market opens and before you do an actual trade, you should create a series of if-then statements (or if-then scenarios) to guide you in your trade, for example, if the price does not go higher than ABC, then I will do DEF.

Indecision candlestick: a type of candlestick that indicates that the

buyers and sellers have equal power and are fighting between themselves, it's important to recognize an indecision candlestick because it may very well indicate a pending price change, you can see examples of indecision candlesticks in Figure 5.2, a Doji is one example of an indecision candlestick.

Indicator: an indicator is a mathematical calculation based on a stock's price or volume or both, you do not want your charts too cluttered with too many different indicators, keep your charts clean so you can process the information quickly and make decisions very quickly, almost all of the indicators you choose to track will be automatically calculated and plotted by your trading platform, always remember that indicators indicate but do not dictate, Figure 2.4 is a screenshot of the type of chart I use with my indicators marked on it.

Institutional trader: the Wall Street investment banks, mutual and hedge fund companies and such, day traders stay away from the stocks that institutional traders are manipulating and dominating (I'll politely call that 'trading' too!).

Intraday: trading all within the same day, between 9:30 a.m. and 4 p.m. New York time.

Investing: although some people believe investing and trading are similar, investing is in fact very different from trading, investing is taking your money, placing it somewhere, and hoping to grow it in the short term or the long term.

L

Lagging indicator: these are indicators that provide you with information on the activity taking place on a stock after the trade happens.

Late-Morning: 10:30 a.m. to 12 p.m. New York time, the market is slower but there is still good volatility in the Stocks in Play, this is one of the easiest times of the day for new traders, there is less volume compared to the Open but also less unexpected volatility, a review of my new traders' trades indicates that they do the best during the Late-Morning session.

Leading indicator: a feature of Nasdaq Level 2, it provides you with information on the activity taking place on a stock before the trade happens.

Level 1: the top section of the Montage window in the DAS platform, information such as previous day close, volume, VWAP, daily range and last sale price can be found here, Figure 2.5 shows an example of the Montage window for Facebook, Inc.

Level 2: if you are planning to primarily day trade in the U.S. markets, to be successful you will require access to the real time Nasdaq TotalView Level 2 data feed, it provides you with the leading indicators, information on the activity taking place on a stock before the trade happens, important insight into a stock's price action, what type of traders are buying or selling the stock and where the stock is likely to head in the near term, Level 2 is at times also referred to as market depth, Figure 2.17 is an image of a Level 2 quote.

Leverage: the margin your broker provides you on the money in your account, most brokers provide a leverage of between 3:1 to 6:1, a leverage of 4:1, for example, means if you have $25,000 in your account, you have $100,000 of buying power available to trade with.

Limit order: an instruction you give to your broker to buy or sell a specific stock at or better than a set price specified by you, there is a chance the limit order will never be filled if the price moves too quickly after you send your instructions.

Liquidity: successful day traders need liquidity, there must be both a sufficient volume of stock being traded in a particular company and a sufficient number of orders being sent to the exchanges for filling to ensure you can easily get in and out of a trade, you want plenty of buyers and plenty of sellers all eyeing the same stock.

Long: an abbreviated form of "buying long", you buy stock in the hope that it will increase in price, to be "long 100 shares AAPL" for example is to have bought 100 shares of Apple Inc. in anticipation of their price increasing.

Lower lows and lower highs: a powerful chart pattern, it's comprised of two candlesticks, with the low of the second candlestick being lower than the low of the previous one, similarly, the high of the second candlestick is lower than the high of the previous one, as conceptually shown on the right-hand side of Figure 5.5, as a Lower Lows and Lower Highs Pattern unfolds, the sellers are more aggressive and constantly making new lows (compared to previous candlesticks), and the buyers are not strong enough to push the price any higher than the previous candlestick, it's a very bearish trend.

Low float stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock's price, the stock's price is very volatile and can move fast, most low float stocks are under $10, day traders love low float stocks, they can also be called micro-cap stocks or small cap stocks.

M

Margin: the leverage your broker gives you to trade with, for

example, if your leverage is 4:1 and you have $25,000 in your account, your margin to trade with is $100,000, margin is like a double-edged sword, it allows you to buy more but it also exposes you to more risk.

Marketable limit order: an instruction you give to your broker to immediately buy or sell a specific stock within a range of prices that you specify, I use marketable limit orders when day trading, I generally buy at "ask + 5 cents" and I sell at "bid - 5 cents".

Market cap/market capitalization: a company's market cap is the total dollar value of its float (all of their shares available for trading on the stock market), for example, if a company's shares are worth $10 each and there are 3 million shares available for trading (a 3 million share float), that company's market cap is $30 million.

Market depth: if you are planning to primarily day trade in the U.S. markets, to be successful you will require access to the real time Nasdaq TotalView Level 2 data feed which is referred to by some as market depth and by others as Level 2, it provides you with the leading indicators, information on the activity taking place on a stock before the trade happens, important insight into a stock's price action, what type of traders are buying or selling the stock and where the stock is likely to head in the near term, Figure 2.17 is an image of a market depth (Level 2) quote.

Market maker: a broker-dealer that offers shares for sale or purchase on the exchange, the firm holds a certain number of shares of a particular stock in order to facilitate the trading of that stock at the exchange.

Market order: an instruction you give to your broker to immediately buy or sell a specific stock at whatever the current price is at that very moment, I'll emphasize the phrase "whatever the current price is", the price might be to your benefit, it very well might not be though.

Market View: a window in the DAS platform, you can type in the names of the stocks you would like to monitor and you will see some information about them such as their % change and volume, I personally keep some market indices in my Market View window in order to be easily able to check in on the overall condition of the market, Figure 2.3 is a screenshot of my Market View window.

Mechanical system: trading strategies that a computer program can execute, the mechanical system is often based on technical inputs such as price and indicators, the strategies are usually programmed into a computer software program that can backtest them on historical market data to determine if they produce positive expectancy, rarely does a trader need to make a decision when using mechanical systems,

institutional trading and high frequency trading and algorithms are all examples of mechanical systems based trading.

Medium float stock: a stock with a medium float of between 20 million and 500 million shares, I mostly look for medium float stocks in the range of $10 to $100 to trade, many of the strategies explained in this book work well with medium float stocks.

Mega cap stock: a stock with a huge supply of shares, for example, Apple Inc. had 4.92 billion shares available for trading as of May 13, 2018, their stock prices are generally not volatile because they require significant volume and money to be traded, day traders avoid these types of stocks.

Micro-cap stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock's price, the stock's price is very volatile and can move fast, most micro-cap stocks are under $10, day traders love micro-cap stocks, they can also be called low float stocks or small cap stocks.

Mid-day: 12 noon to 3 p.m. New York time, the market is generally slow at this time with less volume and liquidity, it's the most dangerous time of the day to be trading.

Montage window: Montage is the most important window in your trading platform and much important information can be found in it, the top section of the Montage window in the DAS platform is called Level 1 and information such as previous day close, volume, VWAP, daily range and last sale price can be found here, the second section of the Montage window is called Level 2 or market depth and it provides you with the leading indicators, information on the activity taking place on a stock before the trade happens, important insight into a stock's price action, what type of traders are buying or selling the stock and where the stock is likely to head in the near term, the next section of this window features the Hotkey buttons, and the bottom part of this window contains the manual order entry fields that traders can use to enter their orders manually if they choose not to use Hotkeys, Figure 2.5 shows an example of the Montage window for Facebook, Inc.

Moving average/MA: a widely used indicator in trading that smooths the price of a stock by averaging its past prices, the two basic and most commonly used MAs are the Simple Moving Average (SMA), which is the simple average of a stock over a defined number of time periods, for example 1-minute, 5-minute, or daily charts, and the Exponential Moving Average (EMA), which gives more weight to more recent prices, the most common applications of MAs are to identify the trend direction and to determine support and resistance levels, in

general terms, the higher the moving average and the higher the time frame, the stronger the support and resistance level is, a 200 SMA on a daily chart is perhaps the strongest support and resistance level, I use 9 EMA, 20 EMA, 50 SMA and 200 SMA on all of my charts, your charting software will have most of the types of MAs already built into it.

N

Nasdaq: the second largest stock exchange in the world after the New York Stock Exchange, Nasdaq stands for National Association of Securities Dealers Automated Quotations, it's based in New York City and in 2017 officially changed its acronym from NASDAQ to Nasdaq.

Nasdaq Composite: also known as COMP$, it's a market index of the stocks listed on the Nasdaq Exchange, its composition is heavily weighted toward information technology companies and it represents the "high-tech" sector behavior of the overall market.

NITF order/No intention to fill order: this is an order made by market makers with the intention of deliberately misleading traders and manipulating the market, to distinguish between real orders and no intention to fill orders (fake orders), you have to see where they are placed in the market book, real orders are placed near the current bid and ask and are likely to get filled, no intention to fill orders are usually placed far from the current bid and ask and can be quickly and easily cancelled, their purpose is to give the impression that either an abnormally big buyer or an abnormally big seller is in the market.

O

Offer: also called the ask, the price sellers are demanding in order to sell their stock, it's always higher than the bid price.

One-Cancels-the-Other/OCO order: allows you to set both a stop loss and a target price and then, when one of the prices is triggered, the other order is cancelled, the first part of the order (the stop loss) is set below the market price while the second part (the profit target) is set above the market price, this is a great way to let a trade pan out without having to actively manage it, it can also be referred to as a Stop Range order or as a Bracket order.

Open: the first 30 to 60 minutes that the stock market is open, from 9:30 up to 10:30 a.m. New York time.

Opening range: when the market opens, Stocks in Play will often experience what I call violent price action, heavy trading will impact the price of the stock, I recently have been leaning toward 15-minute and 30-minute opening ranges to determine what direction the price is heading and whether the buyers or sellers are winning, others will be

equally successful waiting for a 5-minute or 60-minute opening range.

Over-the-counter (OTC) market: most day traders do not trade in the OTC market, it's a specific market used to trade in such items as currencies, bonds and interest rates.

Overtrading: it's a significant error in day trading, overtrading can mean trading twenty, thirty, forty, or even sixty times a day, you'll be commissioning your broker to do each and every one of those trades so you are going to lose both money and commissions, many brokers charge $4.95 for each trade, so for forty trades you will end up paying $200 per day to your broker, if you overtrade, your broker will become richer and you will become broker (!), in addition, another problem with overtrading is risk, while you're in a trade your money is exposed to risk and that is a place you don't want to be in unless you have proven that there is a setup in the strategy worth trading.

P

P&L: profit and loss, I find it the most emotionally distracting column in my trading platform, I tend to make irrational decisions by looking at it, I used to panic and sell my position when my P&L became negative although my trade was still valid according to my plan, or I became greedy and sold my winning position too early while my profit target had yet to be reached according to my plan, do yourself a favor and hide your P&L column, trade based on technical levels and the plan you make, don't look at how much you are up or down in real time.

Pattern Day Trade Rule: a regulation in the United States that requires day traders in the United States to have at least $25,000 in their account unless they use a non-U.S. based broker, it does not impact day traders who live in Canada, England, or any other country other than the United States, with that said, other countries might very well enforce similar rules and regulations, before commencing day trading you should contact your local brokers and ask about the minimum requirements for day trading in your jurisdiction.

Platform: a software that traders use for sending orders to the exchange, brokers will offer you a trading platform that is sometimes for free but often for a fee, platforms are either web-based or as a software that needs to be installed on your computer, your trading platform provides your charting and order execution platform, having a good trading platform is extremely important as it needs to be fast and able to support Hotkeys and excellent charting capabilities, I myself use and recommend DAS Trader, I pay a monthly fee to access their platform and real time data.

Position sizing: refers to how large of a position you can take per

trade, it's a technique and skill that new traders must develop but, please remember one of my rules, you should never risk more than 2% of your account in any given trade, with every single trade you make, you should always ensure that at least 98% of your account is protected.

Pre-market trading: trading that takes place before the market officially opens at 9:30 a.m. New York time, I personally avoid pre-market trading because since so few traders are trading, you have to trade in very small share sizes, if you are considering pre-market trading, you should check with your broker to see if they permit it, with all of that said though, it's useful to keep an eye on pre-market trading, a stock that is gapping up or down by 2% or more in the pre-market definitely gets my attention and may make my watchlist for the day.

Previous day close/PCL: the price of a stock when the market closes on the previous day, knowing the previous day close of a stock is a useful tool for gauging if a stock may come into play the following day and it is a figure used in a number of strategies and patterns explained in this book.

Price action: the movement in price of a stock, I prefer using candlesticks to chart the price action of a stock, capturing its highs and lows and the relationship between the open and close, day traders look for volatile price action and avoid stocks with relatively flat price action.

Price chart: a window in the DAS platform, I use two time frames (1-minute and 5-minute charts) for each stock I am watching, Figure 2.4 shows an example of a 5-minute chart with all of the indicators and Studies I have marked on my charts.

PriceMarker: a Study in the DAS platform that automatically inserts four levels on the chart of any stock that you are watching: yesterday's low price, yesterday's high price, two days ago low price, and two days ago high price.

Profit target: as a day trader, you should have a daily profit target and once you reach it, don't be greedy and risk it, you can turn off your computer and enjoy the rest of your day, in addition, for each trade you set up, you should have a specific profit target that your strategy is based upon.

Profit-to-loss ratio: the key to successful day trading is finding stocks that have excellent profit-to-loss ratios, these are the stocks with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called risk/reward

ratio or win:lose ratio.

R

Real time market data: to be a successful day trader, you need access to real time market data (that you usually must pay for), without any delay, as you will be making decisions and entering and exiting trades literally in minutes, swing traders on the other hand, who enter and exit trades within days or weeks, need only have access to end-of-day data, and that data is available for free on the Internet.

Relative Strength Index/RSI: a technical indicator that compares the magnitude of recent gains and losses in the price of stocks over a period of time to measure the speed and change of price movement, your scanner software or platform will automatically calculate the RSI for you, RSI values range from 0 to 100, an extreme RSI below 10 or above 90 will definitely catch my interest.

Resistance: a price level where sellers enter the market or old buyers dump their shares with enough force to keep the prices from going any higher, resistance is a significant reference point because many traders recognize resistance on charts and believe in its significance, therefore if all traders know there is a resistance nearby they start selling at that level because they are afraid the price might bounce back before they can sell for profit, short sellers also start selling at the resistance levels in the hope of the price dropping.

Retail trader: individual traders like you and I, we do not work for a firm and we do not manage other people's money.

Revenge trading: what happens at times to some traders when they are in trouble, they'll start pushing harder and taking bigger risks, trying to trade their way out of a hole, it never ends well, it virtually always ends with a loss of even more money, a better response to a series of losses is to step aside, go back to your simulator and evaluate the situation.

Risk management: one of the most important skills that a successful day trader must master, you must find low-risk trading setups with a high reward potential, each trading day you are managing your risk and limiting your losses.

Risk/reward ratio: the key to successful day trading is finding trading setups that have excellent risk/reward ratios, these are the trading opportunities with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called profit-to-loss ratio or win:lose ratio.

Runner: a low float stock that makes significant price moves in one

trading day due to heavy volume, usually brought about because of a fundamental catalyst.

S

Scalper: a scalper is a trader who looks mainly for small gains during the course of the day, you enter and exit trades and take small profits each time, and you do it very quickly, you must be very careful with your exit strategy though because one miscalculation can cost you all of your small profits.

Scanner: the software you program with various criteria to find specific stocks to day trade in, Figure 3.14 is an overview of the scanners I often use.

Short: an abbreviated form of "short selling", you borrow shares from your broker, sell them, and hope that the price goes even lower so you can buy them back at a lower price, return the shares to your broker and keep the profit for yourself, to say "I am short AAPL" for example means you have sold shares in Apple Inc. and are hoping their price goes even lower.

Short selling: you borrow shares from your broker and sell them, and then hope the price goes even lower so you can buy them back at the lower price, return the shares to your broker and keep the profit for yourself.

Short Selling Restriction/SSR: a restriction placed on a stock when it is down 10% or more from the previous day's closing price, regulators and the exchanges place restrictions on the short selling of a stock when its price is dropping, when a stock is in SSR mode, you are still allowed to sell short the stock, but you can only short when the price is going higher, not lower, intraday.

Short squeeze: occurs when the short sellers panic and are scrambling to return their borrowed shares to their brokers, their actions cause prices to increase quickly and dangerously, you want to avoid being stuck short in a short squeeze, what you do want to do is ride the squeeze when the price quickly reverses.

Simple Moving Average/SMA: a form of moving average that is calculated by adding up the closing price of a stock for a number of time periods and then dividing that figure by the actual number of time periods.

Simulator: it's mandatory for new day traders who wish a successful career to trade in a simulator for several months, you should purchase a simulated account that provides you with real time market data and you should only trade in the share volume and with the amounts of money you will actually be trading with when you go live, simulators

are an excellent way to practice using your Hotkeys, to practice creating if-then statements and to practice (and practice some more) your strategies.

Size: the "size" column on your Level 2 will indicate how many standard lots of shares (100 shares = 1 standard lot) are being offered for sale or purchase, a "4" for example means 400 shares.

Small cap stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock's price, the stock's price is very volatile and can move fast, most small cap stocks are under $10, some day traders love small cap stocks but do note that they can be really risky, they can also be called low float stocks or micro-cap stocks.

Standard & Poor's 500: often abbreviated as the S&P 500, SPX$, or just the S&P, it's a market index based on 500 large companies listed on the NYSE or Nasdaq, it is one of the most commonly followed stock indices and many consider it one of the best representations of the U.S. stock market as well as a bellwether for the U.S. economy, many traders follow and trade an exchange-traded fund which closely tracks the S&P 500 index known as SPY or SPDR (pronounced spy or spider).

Standard lot: 100 shares, the "size" column on your Level 2 will indicate how many standard lots of shares are being offered for sale or purchase, a "4" for example means 400 shares.

Stock in Play: this is what you as a day trader are looking for, a Stock in Play is a stock that offers excellent risk/reward opportunities, it will move higher or lower in price during the course of the trading day and it will move in a way that is predictable, stocks with fundamental catalysts (some positive or negative news associated with them such as an FDA approval or disapproval, a restructuring, a merger or an acquisition) are often Stocks in Play.

Stop Limit order: a specific order you send to the market, it becomes a limit order once the trigger price is hit, should that happen the limit order is then filled at the specified limit price or better, this is useful for when prices are moving very fast with momentum, using a Stop Market order instead may cause you to be filled at a price much lower than the trigger price, a Stop Limit order is not guaranteed though to be filled if the price drops quickly below your limit price.

Stop loss: the price level when you must accept a loss and get out of the trade, the maximum amount you should ever risk on a trade is 2% of your account, for example, if your account has $20,000 in it, then you should never risk more than $400 on a single trade, once you calculate the maximum amount of money you can risk on a trade, you can then calculate your maximum risk per share, in dollars, from your

entry point, this is your stop loss, your stop loss should always be at a reasonable technical level, in addition, you must honor your stop loss, do not change it in the middle of a trade because you hope something will happen, gracefully exit your trade and accept the loss, do not be stubborn and risk your account.

Stop Market order: a specific order you send to the market, it becomes a market order once the trigger price is hit, for example you can specify that you want to exit your position if the price of the stock falls $1 below your entry, if the stock then reaches that price a market sell order will be sent to sell the shares.

Stop Range order: a specific order you send to the market, it allows you to set both a stop loss and a target price and then, when one of the prices is triggered, the other order is cancelled, the first part of the order (the stop loss) is set below the market price while the second part (the profit target) is set above the market price, this is a great way to let a trade pan out without having to actively manage it, it can also be referred to as a One-Cancels-the-Other order (OCO) or as a Bracket order.

Support: a price level where buyers enter a trade or short sellers cover their shorts with enough force to keep the prices from going any lower, support is a significant reference point because many traders recognize support on charts and believe in its significance, therefore sufficient numbers of traders will not buy before the price reaches to the support level, short sellers also will not cover until that level.

Support and resistance level: this is the level that the price of a specific stock usually does not go higher than (resistance level) or lower than (support level), stocks often bounce and change the direction of their price when they reach a support and resistance level, as a day trader you want to monitor these levels because if your timing is correct you can profit from that rapid change in price direction, I provide some detailed commentary in this book on how to find support and resistance levels, the previous day close is one of the most powerful levels of support and resistance, the bottom half of Figure 4.21 is an example of a chart that I have drawn support and resistance lines on.

Swing trading: the serious business of trading stocks that you hold for a period of time, generally from one day to a few weeks, swing trading is a completely different business than day trading is.

T

Ticker: short abbreviations of usually one to five letters that represent the stock at the exchange, all stocks have ticker symbols, Apple Inc.'s ticker for example is AAPL.

Time and Sale window: part of the DAS platform, the Time and Sale window lets you see where each transaction happened, was it at the ask or above the ask, or was it happening between the bid and the ask, or was it happening below the bid, the way traders are actually making their trades shows what kind of attitude they have toward the current price and its future direction, it helps you to understand the psychology of the traders sending orders to the market.

Top List: a window in the DAS platform, it has six columns, with the first three columns for Nasdaq highest volume, highest gainers and highest losers, the other three columns are for the New York Stock Exchange and the NYSE American (formerly the American Stock Exchange/AMEX), Top List provides a good overview of the stocks that are in play that day, not all of the stocks that are on the Top List are necessarily tradeable for us day traders as companies like Apple Inc. and Facebook, Inc. are listed because their stocks are always being heavily traded by institutions and Wall Street, Figure 2.2 is a screenshot of my Top List window.

Trade management: what you do with your position when you enter a trade and before you exit it, you don't just sit patiently in front of your computer screen with your fingers crossed for good luck and watch what happens, as you monitor and process the information that is changing in front of you, you must adjust and fine-tune the trade you are in, you must be actively engaged in your trade, the only practical way to gain experience in trade management is in a simulator, using the share volume and actual amounts of money you will one day be trading with live.

Trade plan/trading plan: the plan you develop before you actually enter a trade, it takes hard work to develop a solid trade plan and to then practice sufficient self-discipline to stick with the plan, see also the definition for if-then statement/scenario.

Trading platform: a software that traders use for sending orders to the exchange, brokers will offer you a trading platform that is sometimes for free but often for a fee, platforms are either web-based or as a software that needs to be installed on your computer, your trading platform provides your charting and order execution platform, having a good trading platform is extremely important as it needs to be fast and able to support Hotkeys and excellent charting capabilities, I myself use and recommend DAS Trader, I pay a monthly fee to access their platform and real time data.

Trailing Stop order: a specific order you send to the market, it acts as a moving stop loss to protect profits while also maximizing gains should the price continue going upward, it allows you to set a stop

price at a fixed amount below the market price, called a trailing amount, if the market price rises, the stop price follows behind it, but if the stock price falls, the stop loss price does not change, think of it as a one-way stairway — the stop price can only take steps up, once the stop price is hit, the order becomes a market order.

Turbo Breakdown Scanner and Turbo Breakup Scanner: when a Stock in Play makes a new high of the day it is usually with extremely high relative volume, there are many stocks that make new highs or new lows of the day but often these moves are not happening with high relative volume, to filter only the important moves, the Turbo Breakdown filter finds Stocks in Play that are moving down to make a new low of the day with unusual 1-minute volume and the Turbo Breakup filter finds stocks that are making a new high of the day with unusual 1-minute volume.

V

Volume: the number of shares being traded in a company at any given time.

Volume Weighted Average Price/VWAP: the most important technical indicator for day traders, your trading platform should have VWAP built right into it, VWAP is a moving average that takes into account the volume of the shares being traded at any given price, while other moving averages are calculated based only on the price of the stock on the chart, VWAP considers the number of shares in the stock being traded at each price, VWAP lets you know if the buyers or the sellers are in control of the price action, VWAP is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

W

Watchlist: before the market opens, you can tell which stocks are gapping up or down in price, you then search for the fundamental catalysts that explain these price swings, and you build a list of stocks that you will monitor that day for specific day trading opportunities, the final version of your watchlist generally has only three to five stocks on it that you will be carefully monitoring when the market opens, also called your Gappers watchlist.

Whipsaw: describes what happens when the price of a stock is moving in one direction and then quickly reverses and heads in the other direction.

Win:lose ratio: the key to successful day trading is finding stocks that have excellent win:lose ratios, these are the stocks with a low-risk

entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called profit-to-loss ratio or risk/reward ratio.